# 3 Reasons to Stay Invested During a Market Crash

## Description

The TSX celebrated an important birthday in March of this year—the sixth year of the current bull market, which technically began when the TSX bottomed on March 9th, 2009, during the great recession.



This was an occasion for celebration, but also a cause for concern, since the TSX—at 75 months old—has by far exceeded the average bull market length of 49 months, and is quickly approaching the all-time record of 90 months.

While this does not mean a bear market is imminent, investors need to be prepared, and the best form of preparation—before any type of financial preparation—is emotional preparation. The reason stocks drop so quickly during bear markets is because even long-term investors have a tendency to panic and sell after the market has dropped 20% or 30%, often with the hope that further losses can be mitigated.

While it is difficult to hold on to a stock after seeing it decline nearly 50% as many did during the recession, selling is a far more costly option, and long-term statistics reveal the best thing to do during a market crash is exactly the opposite of what you think you should do—that is to say, do nothing, or buy more. Here's why.

**1. Bull markets are longer with much larger gains than bear markets**

Investors who claim to be long-term investors need to do exactly that—have a long-term view. While this may seem difficult when a portfolio is 50% in the red, the following facts should be encouraging.

Since 1956 there have been 12 bear markets, and 12 bull markets. Bear markets often involve very rapid and substantial declines, and therefore create fear in investors. However, looking at them in relation to bull markets over a long-term horizon reveals they are much less concerning than meets the eye.

The average bear market lasts only nine months, with some lasting as short as four months. During the same period, these bear markets saw an average loss of approximately 28%. The 2008-09 bear markets 43% decline was the worst in over 50 years.

Bull markets, in contrast, last an average of 49 months. Not only are they longer, but they also offer significantly greater percentage gains, with the average bull market returning 126%. This means that by holding stocks over a long term, you are almost guaranteed to come out ahead. Investors who were unlucky enough to buy stocks right before the 2008 crash would have recovered their money within two years, and spent the last four years of the bull market doubling the money they had invested immediately before the crash.

**2. The costs of selling during a crash could be substantial**

According to Mackenzie investments, an investor who had $10,000 invested in the American S&P 500 in January 2007 prior to the crash would have approximately $5,800 left at the market bottom in March 2009. Unfortunately, this is the point where most selling occurred. Investors who chose to leave the market at this point and move to a secure five-year GIC paying 1.96% would have only $6,516 by the end of 2014, not even recovering money lost during the recession.



Staying invested, however, would result in the $5,800 in March 2009 recovering to nearly $17,000 by the end of 2014. Even more staggering, an investor who added $10,000 at the market bottom would be left with $46,000 by the end of 2014.

**3. Being out of the market even for a short time can be costly**

The GIC investor above stayed out of the market for the entire bull run, which would be an unlikely scenario. However, staying out of the market even for a very short time frame can be immensely costly.

If an investor invested $10,000 into the TSX and held for a 20-year period beginning in 1994, simply missing the one best week would cost the investor $4,000 of potential returns. Even more staggering, missing the 10 best weeks would cost the investor nearly $20,000 of returns.

Although seeing massive portfolio declines can be unnerving, staying invested is far more profitable over the long term. Moreover, there are ways to see smaller declines, the best of which is to invest in high-quality dividend payers. Studies have found these companies declined less during the last crash then their peers: **Agrium Inc.** (TSX:AGU)(NYSE:AGU) and **Enbridge Inc**. (TSX:ENB)(NYSE:ENB) are examples of solid dividend payers, and both stocks have secure dividends, with significant dividend growth in the next several years.

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