3 Important Ways to Manage a Bear Market

Description

Bear markets are daunting for many investors because it means that the market is caught in an intractable spiral that will more than likely lead to them losing money. To be defined as a bear market, asset prices need to be down by 20% or more, and with the S&P/TSX Index down by 16% over the last year, the point where it will be in a bear market is fast approaching.

There are signs that the carnage will continue as sharply weak commodity prices and concerns over China weigh heavily on asset markets.

Despite this doom and gloom, there are strategies that investors can undertake to weather the storm.

Now what?

Firstly, don't panic and change strategies.

There is nothing worse than panicking and selling out of the market, more often than not at a loss, at the first sign of a falling market. One of the easiest ways to investing success is to invest for the long term in quality, dividend paying stocks that have solid underlying businesses and wide economic moats.

Typically, these companies recover quickly when there is an uptick in sentiment and in the market cycle.

The performance of **BCE Inc.** (TSX:BCE)(NYSE:BCE) over the last decade illustrates this. Its share price is up by 61%, but more importantly, it is now worth almost double its 10-year low of $24 per share hit at the time of the global financial crisis (GFC).

Don't forget about those regularly growing dividend payments.

BCE has paid a dividend in one form or another since 1949. Even at the height of the GFC it still paid a dividend when other companies were putting theirs on hold. It has hiked its dividend for the last seven years straight, giving it a very juicy 5% yield.

Secondly, don't try to time the market.

One of the most frustrating things I see when markets are in free fall is pundits gazing into the tea leaves and claiming that the market has bottomed, making now the time to buy.

Just because something has fallen by 50% in value doesn't mean that it can't fall another 75%. The sharp collapse in oil highlights this.

After crude had halved from its 2014 high of over US$100 a barrel, a number of analysts were telling investors to back up the truck and invest in the energy patch because a recovery was on the way.

Some analysts told investors to load up on **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) when it was at $2 per share. Only months later, it is now at $1 per share and, with crude falling further, there are signs it may not survive.

Finally, take advantage of bear markets to obtain quality stocks at a discount.

Long-term investing is not about timing the market, but when markets are weak, investors have the opportunity to top up their portfolios with solid, reputable companies that are trading at discounts to their fundamental values.

An example of this is banking industry at the time of the GFC. Concerns over toxic assets, weak balance sheets, and mismanagement left many banks on the brink of collapse. Despite this, there were still banks that remained financially healthy. One was **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which, since its GFC bottom of $18.69 per share, has more than doubled in value over the last six years.

So what?

Investors shouldn't be fearful of bear markets. Asset prices are, after all, cyclical in nature. The secrets to managing a bear market are not to panic, remain committed to your investment strategy, and use the bear market as an opportunity to pick up quality stocks at a discount.

CATEGORY

1. Investing

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1. Editor's Choice

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1. NYSE:BCE (BCE Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BCE (BCE Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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