

# How to Make Money During Booms AND Busts!

## Description

Perhaps one of the most challenging aspects of investing is dealing with its ups and downs. It is all too easy to allow emotions to rule your thought process when times are good or bad. However, being able to keep a lid on them and instead use logic can help you to generate much improved returns in the long run. In fact, it is possible to make money in a falling, as well as rising, market.

## Honesty is the best policy

Perhaps the simplest means of overcoming the fear and greed which continually occupy all investors' thoughts is to adopt an honest approach to investing. In other words, while it may feel better to sell up when things aren't going well, or to pile in when share prices are soaring, focusing on valuations and the risk/reward ratio can be hugely beneficial.

For example, if share prices have risen significantly and even mediocre companies are trading at high multiples by historical standards, it may be a good idea to sell up and wait for wider margins of safety. Similarly, if a bear market is in existence, valuations may go lower but the balance of probabilities suggests that they will eventually move higher given time. Being honest about this and the prospects for a company given the strength of its management team, product offering and financial strength could help to improve returns in all market conditions.

## Historical reference

Focusing on history can also help to remind investors that good and bad times are only ever temporary. For example, even the worst financial crises such as the Great Depression and Great Recession did not last in perpetuity. Economies and share prices recovered, which meant that buying during even their early days would have probably delivered profit for bold investors.

Likewise, financial booms such as the dot.com bubble never last. This has been the case since tulip mania hit in the 17<sup>th</sup> century, with asset valuations enduring periods of highs and lows ever since. Certainly, it may feel as though the good times will last forever and that this time it is different, however history says otherwise. Reminding yourself of this fact can be a useful means of remaining logical during even the most exciting periods for share prices.

## CATEGORY

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