



## Wise Investors Are Already Planning for the Next Bear Market

### Description

At a time when stock markets across the globe are making new record highs, planning for a bear market may seem like a rather strange thing to do. After all, the outlook for the global economy is relatively positive, which could lead to higher earnings growth as well as increased valuations.

However, a [bear market](#) is never far from a bull market. As such, while aiming to generate high returns is a worthwhile pursuit, planning for a more challenging period of share prices could be a worthwhile endeavour.

### Gradual change

Of course, for a bear market to get underway, share prices must fall by 20% from their peak. However, once this has occurred, an investor may have already lost 20% (or more) of the value (or more) of their portfolio.

During a period in which share prices are falling, but it is not technically a bear market, there are usually wide-ranging views on the future of share prices. Often, the general consensus is that the fall in share prices is a correction and that the bull market is set to resume in the near term.

As such, many investors will focus on the profit potential that may be available now that share prices have fallen by as much as 20%. Certainly, wider margins of safety may be on offer. But if a full-blown recession takes hold, as was the case during the financial crisis of 2008, then the losses in certain sectors could be much higher.

### Risk focus

Therefore, during [share price declines](#) and even during a bull market itself, investors may wish to focus on risk at least as much as reward. Certainly, a stock price may be 5% cheaper than it was last month, but this may not necessarily mean that it is good value for your money in the long term. Similarly, a company with high debt levels may be in the process of deleveraging, but if it is unable to reduce borrowings to a sustainable level before the next recession, then it may run into severe difficulties.

By focusing on the potential downside and risk of loss as much as the upside potential, investors may be able to boost their long-term portfolio performance. While difficult to achieve in a bull market, where optimism is high, being realistic about the potential returns on offer based on the track records of stock markets could prove a useful means of developing increased discipline when it comes to investing.

## Future prospects

The longer the current bull market lasts, the more severe the next bear market is likely to be. It could present a superb buying opportunity for investors that more than offsets any opportunity cost of holding cash in the meantime. Therefore, while it is tough to miss out on gains from record share price movements, to some extent, doing so may prove to be the best option for long-term investors.

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