Are We Entering a Bear Market?

Description

The **S&P 500** and **S&P/TSX Composite Index** (TSX:^GSPTSE) are down 10.2% and 8.2%, respectively, over the last two weeks. It looks like one of the sharpest declines many investors have ever witnessed before, and that has many individual investors running scared. This is a correction, a violent one, but it's not a bear market yet, though it could be soon. But how should you react to this ridiculous onslaught of market volatility and negative momentum?

The S&P 500 is now closer to being in a bear market than rebounding to its high seen just a few weeks ago. If that doesn't have you shaking, perhaps what's even more unnerving is the fact that overbought passive investment instruments like index funds and ETFs are exacerbating this sell-off, likely making the decline sharper and more violent than it should be.

Carl Icahn pointed out that the markets would likely "implode" worse than the Great Depression at some point in the future because of a "bubble" in such passive-investment securities, which allow unknowing investors to get in the game without really knowing what they're buying into or how much leverage a particular fund or ETF may be taking on.

In addition, the recent blow-up of the inverse volatility index or XIV has exacerbated the fears of investors, but hopefully, regulators will step up to the plate and place a ban of these insidious ETNs, which I believe should not exist! They are a trap for retail investors and traders alike. Jim Cramer recently stated that a "group of morons" is blowing up the market and potentially making the "reset" a lot nastier than it should have been. That's apparent, since the S&P 500 has plunged well below the levels before it hit its inflection point, going parabolic until the peak.

I'm not trying to scare you out of the markets; I'm just giving it to you straight, without a sugar coating it, so you can make an informed decision. Before you hit the sell button though, realize that the correction is better happening now then at some point down the road after months or potentially years after going parabolic. That said, I still believe the markets are not crashing like they did in 2008.

This is simply a much-needed correction that I believe is being amplified by folks throwing in the towel on passive-investment products, which are far easier to dump than a portfolio of individual stocks. On the flip side, once we hit a bottom, I think a V-shaped rebound could be possible once ETFs and index funds are scooped back up again, driving the broad markets much higher.

A bear market could happen (a bear market is a 20% fall from peak to trough), but regardless, I'd recommend investors slowly nibble away at weakness in the weeks ahead and not make any panic-driven moves that could lock in losses. Consider low-risk, high-dividend bets like **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), which is a defensive stock that I believe is the best dividend stock to own in 2018. Lock in that attractive ~4.6% yield and prepare for years of growth that you'll get at an incredible discount to the company's intrinsic value.

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