Coronavirus Outbreak: Is it the Start of a Bear Market?

Description

It is amazing how retail investors can quickly lose perspective. On Monday, fears around the coronavirus led to the worst day on the S&P/TSX Composite Index since October. Panic was spreading like wildfire, and bears were proudly stating that the bear market had finally arrived. All this because the Index lost 122.78 points, or 0.70% of its value. Yes, you read that correctly. The Index lost less than a percentage point.

Perspective is everything for investors. The problem, however, is that anyone who began investing in the last decade know mostly good times only. We are in the midst of a record bull run, and new investors aren't used to pullbacks. The irony is, the last two years were some of the most volatile on record. In 2019, the S&P/TSX Composite Index lost more than 0.70% a total of 14 times. In four of those, the markets lost more than a percentage point.

In 2018, the markets dropped by more than 70 basis points 33 times, losing a percent or more 20 times — the majority of which occurred between October and December. Did the sky fall? No. In fact, these drops represented an excellent buying opportunity.

Are we in a bear market? Not even close. Are we at the start of one? Potentially, but no one really knows. The generally accepted definition of a bear market is when the stock market falls by at least 20% over the course of two months or more. The average bear market has lasted approximately three months before the markets resumed their upward trend.

As we witnessing a correction? Once again, we have a significant way to go, as the markets must drop by at least 10% to be considered in correction territory. Corrections are typically much shorter in duration than bear markets.

Every correction or bear market in history has proven to be a buying opportunity. It is also proven that trying to time the market bottom is rarely successful. In other words, stay invested and average into your positions.

It is also worth pointing out that a correction can be attached to individual equities using the same parametres. One company that is currently in the midst of a correction is **Air Canada**.

Virus fears have driven airline stocks lower. Over the past seven days, Air Canada has lost 13% of its value, which puts the airline firmly in correction territory. Is now the time to jump in? Not necessarily. Once again, perspective is everything.

Over the past year, Air Canada's stock is still up 56.38%, despite its recent correction. Arguably, the stock was due for a pullback, and the coronavirus was the catalyst to make it happen. Since the full ramifications of the virus are not yet known, Air Canada may be subject to additional downward pressure. From a technical perspective, if it crosses below the 200-day moving average of $43.48 per share, the next resistance point is around $40 per share. That is approximately 10.6% downside from today's price.

Foolish takeaway

Investors who fear a bear market or a correction should note that we have a ways to go before that happens. Likewise, these types of bearish events should be viewed as healthy pullbacks that will present investors with significant buying opportunities. Don't fear a bear market or a correction — embrace it.

With respect to Air Canada, those investors looking at the airline are best to average into a position. Since there are too many unknowns, averaging is a prudent approach. Although you cap your upside with the former, you protect yourself against further downside if the latter occurs.

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