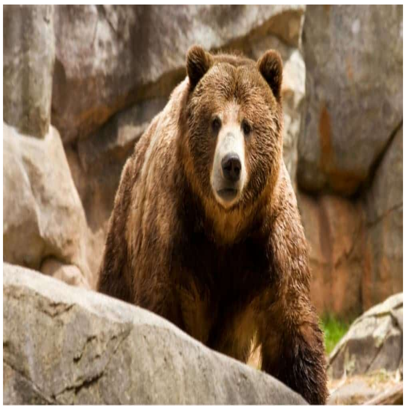

3 Steps to Surviving Your First Bear Market

Description

Amid continued coronavirus (COVID-19) fears, the global markets are on the cusp of falling into a bear market. For many young investors who haven't invested through the 2007-08 Financial Crisis, the coming bear market will be uncharted territory. While it can be traumatizing to see your portfolio down over 20% from its top, it's essential to realize that such bear markets can represent an opportunity for those with the knowledge of how to tame them.

Cash on the sidelines is a must

If you're going to want to rise out of the bear market richer than your peers, you're going to need plenty of dry powder on the sidelines. If you're nearly 100% invested, you won't be able to take advantage of opportunities as they come to be, but you can still survive by tempering your emotions and not making rash decisions such as selling on panic.

We don't know how bad COVID-19 is going to get or when it's going to be eradicated

Things certainly have the potential to get much uglier over the coming months, and the markets could continue on their steep path. Stocks could either implode or sharply rebound without a moment's notice, so it's vital to keep your calm, preparing for the worst, but hoping for the best.

With cash on the sidelines, you'll be preparing for rainier days. And should the global epidemic evolve into a pandemic, you'll be glad you did. Warren Buffett has north of $120 billion in cash, and he'll be looking to put it to work as stocks become cheaper in a bear market.

Don't spend it all at once!

Dollar-cost-averaging is your friend when Mr. Market pulls the rug from underneath investors.

There's no telling how bad things can get or whether the U.S. will have a stimulus package that can limit the damages on the horizon and cause a 180-degree reversal in the markets. It's therefore only prudent to be a systematic and incremental buyer of stocks over time.

Bear markets tend to be shorter-lived than bull markets, but on average (since World War II), they've tended to last around 14 months, so don't spend all your cash after the markets crash, as odds are they could continue tumbling by another unknown percentage after you've exhausted your cash reserves.

Moreover, you should also resist the urge to keep lowering the bar and waiting for a bottom. There's no bell that goes off when the market bottoms out. Given that the markets could sharply correct to the upside, you could miss your chance to get in if you play it too safe by putting nothing to work until you see evidence of a technical bottom.

Expect to take short-term pain for long-term gain

When you buy a stock, you're expecting it to go up. Otherwise, you'd be a fool (that's a lower-case "f") for buying it to begin with!

In a bear market, though, you should expect to be proven wrong almost instantly as you surrender to the forces that move the broader markets.

By buying on a violent dip, you're betting that the long-term gain will be well worth the short-term pain you'll endure. You've got to be willing to look like a fool in the short-term for going against the grain, racking up double-digit losses over the matter of days to be able to rise ahead out of a bear market richer than when you entered it.

If you're willing to hold your nose and buy in a bear market while appearing foolish to all your friends, then you have what it takes to turn something as dreaded as a bear market into a generational opportunity to build substantial wealth.

Stay hungry. Stay Foolish.

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joefrenette