TSX Index Enters Bear Market: Don't Panic — Do This Instead

Description

The **TSX Index** fell into a bear market just days after it crashed over 10% in a day, marking one of the worst single-day drops since the Great Recession. Many Canadians have lost a considerable amount of money over the past few weeks.

For those who remain committed to investing through this implosion, it can feel a lot like being a captain who's going down with the ship. Sure, paper losses are only realized once you actually sell. However, almost everyone is likely to feel as though the losses are real and not just "on paper." In the heat of the moment, you can feel drowned with self-doubt and regret as global equity markets crumble like a paper bag before our very eyes.

Certain financial wounds can only heal with time

If you bet the farm on an undiversified portfolio of the most affected sectors, you probably need to recognize and correct your mistakes sooner rather than later. Diversification *is* the only free lunch in the world of investing. Just ask anyone who was overexposed to the travel, banks, or energy sectors!

Improper diversification is just asking for trouble when the market waters finally turn rougher, as they did over the past month. If you're overweight oil stocks, you took on a brunt of the damage, as a brutal price war could spell doom for many less-solvent players in the space.

And while it hurts to sell a stock like **Cenovus Energy** after it lost half of its value in a day, it may be warranted if you've discovered you're too invested in the ailing oil patch.

Of course, you'll need to be calm, cool, and collected. And not in a state of panic should you rotate funds out of your losers and into other names to better diversify your portfolio. Otherwise, you could find yourself making investment decisions without the opportunity to ask yourself the right questions.

It doesn't matter if you're buying or selling stock; you shouldn't act with the intention of askingquestions later. Doing so will cause you to make rash decisions and put you in the same spot as theherd, which is rushing to the exits right now.

Hello, bear market!

The bull market is dead, just days after its 11th birthday. It's sad, and it marks the end of an era. But all a bear market means is that we've suffered a decline of the arbitrary figure of 20%.

Nobody knows if the bear's just making a quick appearance before he hibernates for another decade or if he's here to haunt investors for the year.

So, rather than timing the markets, it's only prudent to make sure your portfolio is prepared to deal with what could be a further decline into the abyss. If you're not diversified and find yourself exposed to some of the most vulnerable sectors in the market, you've got an opportunity to rebalance and diversify yourself.

And if you're properly diversified, the best course of action when you're in a state of panic is to sit on your bum and do nothing. When you've gotten control of your emotions, then you can take advantage of the decline to buy shares of companies that are priced at what you believe is a discount to the intrinsic value.

Foolish takeaway

Don't panic sell. But don't panic buy the hardest-hit names either. Do your homework. Be patient and swing at the perfect pitches that are bound to come your way. If you find your portfolio is undiversified, it's never too late to right your wrongs and diversify some of the pain away.

Stay hungry. Stay Foolish.

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joefrenette