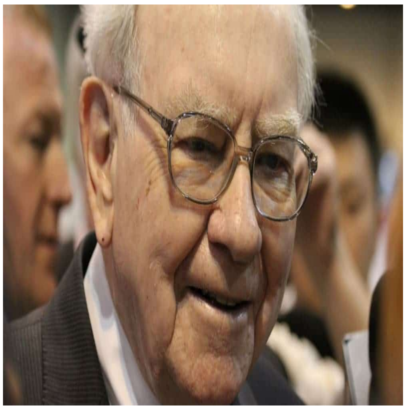

Warren Buffett's 3 Rules for Investing in a Bear Market

Description

We're officially in a bear market. That's by the most widely accepted definition of the term, which is a stock market decline of 20% or more over time. As of Friday morning, the TSX Composite Index had fallen 22% for the week. By the time you read this, it will likely have fallen more.

It's a scary time, there's no question about it. Yet history has shown time and time again that investors who buy when stocks are going down get rewarded over the long run. Every investor knows you need to buy low and sell high. What most don't realize is the implication of that: that you need to buy in bear markets. Nobody knows precisely when the bottom will hit. However, if you buy stocks cheaper than they were before, you're likely to be rewarded in the future.

Perhaps nobody exemplifies that approach better than Warren Buffett. A lifelong value investor, he has built his $89 billion fortune in part by buying when others are selling. As Buffett himself will admit, it takes emotional discipline to buy in a bear market. If you do, however, the rewards can be enormous. With that established, here are Buffett's three timeless rules for investing in a bear market.

Be greedy when others are fearful

One of Warren Buffett's best-known quotes is "be fearful when others are greedy, be greedy when others are fearful." He's basically saying to buy when others are selling, and sell when others are buying.

If a stock's price is going down when its earnings are going up, it will likely rise in the future. So, in today's market, if you buy a stock like **Fortis** (TSX:FTS)(NYSE:FTS), whose earnings are unlikely to be affected by the coronavirus, you may be able to sell higher in the future.

Don't try to find the bottom

Everybody knows you need to buy low. The problem is knowing where the bottom is. If you'd bought earlier this week, you'd have seen your shares decline even further. It's scary stuff. But you can never really know when the bottom is going to hit. All you know is that when a quality stock goes down in price, it's likely to rise again in the future.

That's why Buffett counsels against trying to time markets and focuses more on buying good stocks at good prices.

Be patient

Perhaps the most famous Buffett virtue of all is patience. Warren Buffett is well known for riding out long-term market downswings without selling. There's profit to be made by selling when stocks are overvalued and buying them cheaper, but Buffett prefers to stick it out for the long term. It might seem counterintuitive, but if try to sell out of your positions when they're overbought, you may never get a better price to buy back in later.

To return again to Fortis: during the 2008/2009 financial crisis, its stock declined along with most others on the TSX. In fact, it took about three-and-a-half years for it to get up to its previous December 2006 high. It would have taken a lot of patience to ride that one out.

But with the stock paying — even increasing — a dividend along the way, you could simply have treated it as an income investment and stayed the course. If you did, you'd ultimately have seen your stock rise 113% from its 2009 low.

Through the financial crisis, Fortis never had a losing year. In fact, it grew its earnings. If you see a discrepancy like that and jump on it, you may have to wait, but you'll be rewarded in the end.

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