Bear Market 2020: What to Do if You Buy Stocks Too Early

Description

U.S. and Canadian stocks are officially in a bear market, having corrected more than 20% from their highs. This happened very fast in a matter of a month.

What was initially thought to be a normal market correction, as the stock market valuations were getting frothy, is turning out to be a full-fledged bear market.

I bought into stocks too early.

My recent purchases of **A&W**, **Royal Bank of Canada**, and **Toronto-Dominion** stocks have fallen 5%, 11%, and 10%, respectively. These are stocks that are typically categorized as low risk!

Never mind the **Air Canada** stock I bought as a turnaround investment. This one is definitely way too early; my position is down 26% so far.

I expect more pain in all of these holdings, particularly in Air Canada.

Stay rational: No one can time a bear market bottom

Keep in mind that no one can time the bottom of a market downturn. So, don't kick yourself when your stocks fall further after you buy them. Market volatility is natural — especially when we're dealing with a global pandemic.

Admittedly, the Air Canada buy was way riskier than the other three stocks. Thankfully, I'd invested through the last recession and market crash, so this time around, with my previous experience, I can fare this bear market better.

I'm also grateful that I have the habit of averaging into stocks. In a market downturn, this habit allows me to buy more shares at cheaper prices.

What should an investor do if they buy stocks too early?

You either buy them as they fall or as they rise. So, don’t worry too much if you buy stocks early.

For dividend stocks like the A&W, RBC, and TD stocks I previously mentioned, the earlier you buy shares, the sooner you start collecting passive dividend income.

Yes, what you collect in dividends in a year may indeed pale to the stock price drop that you’ll experience in the short term. However, if you wait for the perfect price, you may miss the boat.

Currently, at writing, A&W, RY, and TD stocks, respectively, offer juicy yields of 6.25%, 4.8%, and 5.2%. These are yields that investors would have jumped on just six months ago!

If you’ve already bought into the stock market correction in dividend stocks, just collect dividends. It’s as simple as that.

Why not sell stocks now and buy shares back later?

If I think the stock market is going down more, you might wonder why I don’t suggest selling stocks now and buy them back at lower prices later.

The problem with that strategy is that you might develop the habit of selling. One possible scenario is that you would buy back shares at lower prices. But the stocks could fall even further after that. At one point, they pass your pain threshold, and you’ll sell stocks at another loss.

Final thoughts

With all that said and done, ultimately, investors need to be able to hold on to their stocks. If you know what’s coming (but we can only make educated guesses), you may be able to fare better.

Seeing as COVID-19 is now having outbreaks in European countries, and there are worries that the same could happen in North America if everyone is not doing their part, I believe there’s more downside coming to the markets.

So, now that we know what’s coming, my hope is, we’ll fare better in this bear market. In the meantime, try to have some dry powder on the side.

If you’re itching to shop for value, here are some top stocks to consider in this market crash.

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