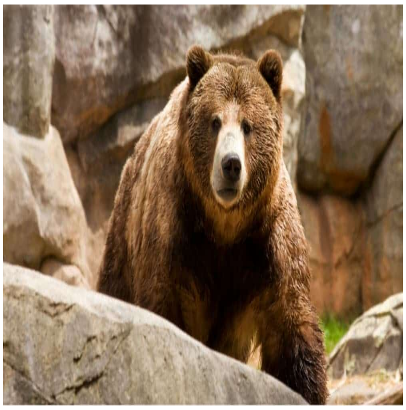

Is the Coronavirus Bear Market Finally Over?

Description

A version of this article originally appeared on Fool.com, by Dan Caplinger

The stock market has seen one of its fastest bear market declines ever, with fears about the coronavirus pandemic taking more than 35% off the **Dow Jones Industrial Average** in just a single month. The drop was not only steep but also psychologically punishing, as day after day, small recoveries would give way to larger downward moves. All along the way, investors wanted to know when the bottom would come.

Last week, the Dow and other major market benchmarks finally posted a solid recovery. Briefly on March 26, the Dow had climbed more than 20% from its March 23 lows, prompting some to declare the end of the coronavirus-inspired bear market and the beginning of a new bullish period for stocks. Here, we'll take a closer look at the question of whether the bottom is in — and offer some thoughts on how investors should decide about whether it's safe to get back into the stock market.

The great bear market debate

No investor wants to buy stocks right before a big downward market move, so it's natural for people to be hesitant to put new money into stocks right now. Plenty of investors believe there's a lot more room for downside even after the market's declines over the past month. Here are some of the reasons:

- First-quarter earnings season is about to start, and the impacts of the coronavirus will become clearer than they have been. For many hard-hit industries, including retail, airlines, travel, and manufacturing, the numbers will likely be scary and sobering.
- It's unclear whether the pandemic is coming under control. Case numbers continue to rise in the U.S. and throughout Europe, and there might not be the political will to stick with mitigation measures long enough to avoid further upticks in the rate of spread of COVID-19.
- Stresses to the financial system have spread beyond the stock market. Bond markets are facing new strains as liquidity concerns rise. Some fear carry-on effects in other financial markets as well — as we've already seen in the plunge in crude oil prices.
- Even once the immediate threat of the coronavirus ends, there could be a long readjustment

period before economic activity returns to normal levels. For instance, in travel, airlines will need to return cancelled flights to their schedules, and passengers will need to buy tickets to fly. Similarly, manufacturing companies will need to restore their operations gradually, all the while remaining uncertain whether consumer demand will pick up in time to justify having larger inventories available. The necessary ramp-up period could take longer than most people realize.

At the same time, there are plenty of bullish arguments for why the stock market has already hit bottom:

- The speed of the market's decline — and its significant bounce subsequently — had the appearance of a slow-motion "flash crash" driven by algorithmic trading activity. Even if fundamental business conditions remain slow, the argument goes, share prices won't necessarily keep falling back to those artificially low levels.
- Many market participants believe that investors are incorporating worst-case scenarios into their expectations for stocks. Unless you believe that the coronavirus will remain a permanent fixture affecting markets for years to come, rising optimism as growth in case numbers starts to decelerate should help support share prices.
- Orders for people to stay at home will create pent-up demand for many goods and services, and consumers will eventually want to make up for lost time. That could create a temporary boom once the worst of the pandemic has passed, bolstering the stocks of companies hit hardest by the crisis.

My answer: who cares?

I'm afraid that I don't know whether the market's hit bottom. I can't predict whether some new crisis will emerge to send stocks lower, or whether a quick solution to the coronavirus pandemic will appear to restore confidence.

What I do know, though, is that I haven't changed the strategy I've used for years. For long-term investors, the entire premise of using short-term market timing to try to wait for the absolute bottom in the stock market before buying stocks is flawed. If you have cash to invest at this point, you're already getting a huge bargain compared to where prices were as recently as January and early February. Nailing the perfect buy has some psychological value, but the difference in your long-term returns from buying at current prices compared to paying 5% less or 5% more just isn't that large.

The easiest way to overcome your fear of further declines is to invest your available cash in multiple parts. For instance, you could take a third of your investing capital and buy the stocks you like now. From there, you can either commit to investing the second and third parts of your cash at fixed times in the future regardless of whether the stock market rises or falls from here. Alternatively, you could set levels that the market will have to fall to before you'll invest the remainder of your available money.

With that strategy, you don't have to worry about calling the exact bottom of the bear market. By investing in multiple installments, at least *some* of your money will go in near the low. But more importantly, you'll ensure that you get cash invested where it can do you more good over the long run — rather than waiting for a bottom that might already be in.

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Date
2025/08/12
Date Created
2020/03/31
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