Nervous About the Market? Here’s What to Do if it Continues to Fall

Description

If you’re nervous about investing in the stock market today, don’t worry. You’re not alone. In fact, it’s probably more common for investors to feel a bit anxious given the current direction of the market. This weak performance seems a lot worse than it is because of how strong the market has been over the past few years. However, it’s important to realize that this is a perfectly normal occurrence in the grand scheme of things. Investors should keep a cool head and stay on course. Here are the different options available to investors.

Option #1: Sell your shares

This is perhaps the worst thing an investor can do. This doesn’t really follow Foolish investing principles, but it’s important to understand why investors shouldn’t do this.

First, there’s a good chance that your positions are much lower than where they were in January. That means you would be locking in losses or, at the very least, a much smaller gain than you had previously. Panic selling like this is one of the reasons many individual investors have a hard time beating the market. It’s important to remember that the longer you leave your capital in the market, the greater chance you have in generating positive returns.

Second, we don’t know how long this correction will last. For all we know, the worst of it could come tomorrow. If that’s the case, then missing the beginning of the next bull market could be hugely detrimental.

Research has shown that if you were fully invested every day since January 2000, your portfolio would’ve generated an annualized return on 6.06%. However, if you missed just the 10 best market days since then, your annualized return would plummet to 2.44%. Missing 20 of the market’s best days over the past two decades would result in a less than 1% annualized return. Finally, missing the 30 best days over the past two decades would result in a nearly 2% annualized loss.

Option #2: Don’t do anything

This isn’t the ideal option, but it’s a much better decision than selling out of your shares. Generally, the market tends to decline 5% once a year. Further, the market tends to fall at least 10% once every couple of years. Finally, the market tends to fall 20% or 30% once every four and nine years, respectively.

It’s important to know how long these corrections tend to last. Typically, a market correction can last for a few months. On average, bull market corrections result in a 13% decline over a span of four months. We’re just entering the third month of the year, so it’s not uncommon to experience a decline for as long as we have. It’s also important to realize that investors haven’t experienced a normal economy so far this year. With interest rates increasing and instability in Europe, there are many possible contributors to the market’s downturn.

Option #3: Buy shares

This is the ideal option. If you have money sitting on the sidelines and are willing to buy shares right now, that’s the best thing you can do. Stocks across the market are trading at massive discounts. Once the market begins to trade upwards, investors that managed to accumulate shares at cheap prices should see their portfolios move upwards much faster. It’s important to be wise about which companies you pick during a time like this, but there’s no question that buying shares during a decline is the best option to take.

If I had to choose one stock to invest in today, it would be **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). It’s one of the most recognizable companies in Canada and a leader within the Canadian banking industry. Bank of Nova Scotia could see a widening in profit margins due to the increasing interest rates. That should make it appealing to institutional and individual investors alike. A Canadian Dividend Aristocrat, this stock will also pay investors a forward yield of 4.29% for holding shares.

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