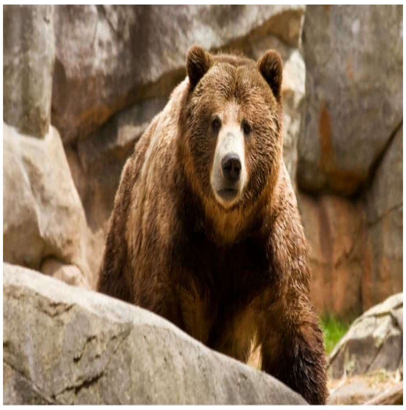

Market Sell-off: Why You Should Keep Investing in a Bear Market!

Description

Stock market investors would have come across terms such as bull market and bear market. Theoretically, when stocks gain momentum over a sustained period of time, they are said to have entered a bull market phase. Alternatively, a major decline in indexes (over 20%) is associated with a bear market.

The most common use of the term refers to the performance of major indexes such as the **S&P 500** or **TSX**, which are considered benchmark indicators of the stock market. Further, the term can also be used for a particular stock or any other index.

For instance, the tech-heavy **Nasdaq Composite** index recently entered bear market territory. Similarly, several tech stocks including **Shopify**, **Nuvei,** and **Lightspeed** have also fallen into bear market territory as they have plunged from all-time highs.

While terms such as stock market correction and bear market are used interchangeably, a correction is defined as a pullback ranging between 10% and 20% from record highs.

What causes a bear market?

There are several factors that can cause the equity market to trade lower. Most recently, the ongoing pandemic saw the S&P 500 lose over 35% in market value in just over a month. The financial crisis of 2008-09 was a tumultuous period for investors as the S&P 500 slumped 56% from all-time highs.

Similarly, tech stocks burnt massive investor wealth during the dot-com bubble of 2001, as market participants were concerned over steep valuations surrounding growth stocks.

In the last six months, investors are grappling with multiple headwinds that include the possibility of multiple interest rate hikes, rising inflation numbers, supply chain disruptions, geopolitical tensions, a new COVID-19 variant, high oil prices, and more. Each of these factors can push indexes toward bear market territory again.

How to invest in a bear market?

Investors should understand that bear markets are unavoidable and it can be quite intimidating to watch your portfolio value collapse in a few trading sessions. However, every bear market is an opportunity to buy quality stocks at a cheaper valuation.

Here are a few rules or guidelines you can use while investing in a turbulent bear market.

Keep a long-term view

It’s not advisable to panic amid a stock market meltdown, as it’s impossible to time the bottom accurately. Most investors underperform the stock market over time as they move in and out of equity positions quickly.

When stock prices tumble, it may seem the bloodbath is likely to continue. So, you sell before losing any more capital. However, when bull markets begin and stocks reclaim all-time highs, you may find it difficult to take the plunge again due to uncertainty surrounding the asset class.

Buy quality stocks

It’s imperative you pick and choose companies that have strong fundamentals, sustainable growth rates, improving cash flows, and robust earnings. As your investment horizon should span more than a decade, the stocks part of your portfolio should stand the test of time.

There are several blue-chip companies in the TSX such as **Constellation Software**, **Royal Bank of Canada,** and Enbridge that continue to deliver outsized gains to long-term investors.

Focus on dollar-cost averaging

One of the most beneficial investment strategies is dollar-cost averaging. Here, you invest a certain amount each month and take advantage of market highs and lows. So, if you have $24,000 to invest each year, it makes sense to invest $2,000 each month rather than all at once.

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