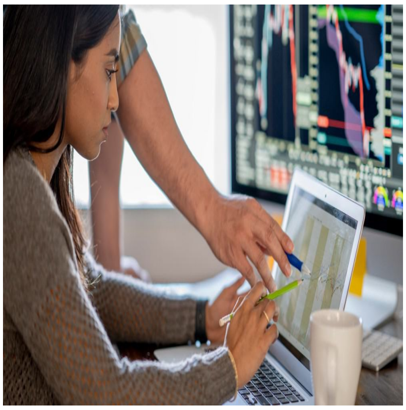

Getting Hurt in the Market? Here’s 1 Good Reason to Stay Positive

Description

The stock market is giving investors a volatile ride in 2022. The S&P 500 is down close to 20% for the year, and the TSX isn’t far behind it. Without a doubt, this is the most difficult market we’ve seen since March 2020. Particularly for growth stock investors. Many high-growth tech stocks have gotten hit so hard this year that they are now *below* their March 2020 lows. While stocks as a whole are experiencing a mild bear market, there is a certain sub-set of growth stocks that are getting crushed like in the year 2000.

If you’re one of these investors, it’s natural to feel hurt. Certainly, everybody is sitting on paper losses right now. If you’re heavily invested in growth stocks, you may feel you’ve been hit especially hard. From a short-term perspective, you have, in fact, been hit hard.

The good news is that this isn’t the end of the world. We have seen corrections far worse than this one in the past, and stocks came back every single time. In many cases, bear markets proved to be the best times a person could have invested. That’s a powerful reason to stay positive and, as you’re about to see, it has equally powerful mathematical reasoning behind it.

Bear markets are the best times to buy

The number one reason to stay positive during bear markets is that such markets are the best times to invest. While it might sting to see your *previous* investments going down, investments you make today have a fighting chance of doing well.

This isn’t just a self-help platitude; it’s a mathematical fact. If a stock worth $1 goes down while its earnings and book value go up, then the stock becomes more valuable in terms of its claim to underlying assets. If the stock pays a dividend, then its yield goes up as well. As stock prices decline below fair value, investors get interested again, causing prices to rise. You can’t trade $1 for $(1 – X) forever; if market participants are rational in the long run, then they will eventually take advantage of the arbitrage opportunity.

The worst-case scenario isn't that bad

As we've seen, bear markets aren't the end of the world for investors. As long as earnings and assets decline less than stock prices, stock prices will eventually rise. Furthermore, even worst-case scenarios in the markets aren't that bad. **Amazon** famously went down 90% in the dot.com bubble, only to rise many thousand percentage points later. I'm not saying every stock you invest in will be the next Amazon, but any diversified index fund has a good shot at bouncing back from its downturns.

The safest bear market investment

Speaking of index funds…

Such funds are among the best assets you can buy in times like these. An individual stock can go to $0, but index funds like **iShares S&P/TSX 60 Index Fund** (TSX:XIU) rarely do. XIU has 60 stocks (ample diversification), a 0.16% fee (low costs), a 2.5% dividend yield, and extremely high liquidity.

When you invest in a fund like XIU, you reduce your chances of seeing your investment go to $0, because you spread your eggs across multiple baskets instead of putting them in one. In doing so, you avoid the absolute worst possible bear market outcome (investing in a company that goes bankrupt) and increase your odds of seeing your holdings bounce back in the recovery.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Investing

Date
2025/08/22
Date Created
2022/05/23
Author
andrewbutton