Here's Why I'm Confident About Investing Through the Down Market

Description

This has been a terrible year for the markets so far. Canadian markets have dropped 11%, while the **S&P 500** has taken an even bigger hit, falling 23% this year. Growth stocks like in the technology sector are down much more than that. This year's volatility has been so brutal that even seasoned market participants have felt the pinch. However, while portfolios are down big time, some savvy investors have not stopped adding quality names to theirs through this bear cycle.

Is the bear market an opportunity?

It's natural to feel anxiety and fear when top stocks lose most of their value in these markets. Canada's top growth stock **Shopify** (TSX:SHOP)(NYSE:SHOP) was the biggest wealth creator for years, returning more than 5,000% between 2015 and 2021.

However, when the cycle inverted late last year, SHOP became the biggest value destructor among **TSX** growth stocks. It has tumbled 85% since November 2021. Those who believe in Shopify's fundamentals and have faith in its leadership understand that these are cyclical phases. The correction could be a significant opportunity for long-term investors.

It's vital to acknowledge that stock markets work in cycles. There is no bear market in history that has not been followed by a bull cycle. Volatility is the innate nature of stocks. Sometimes, there are small swings, but they can also be massive. It's essential to monitor your behavioural biases during these times. And investing for the longer term alleviates risk to a large extent.

If you have a strong conviction about your stock pick or a proven investment strategy, you should stick to it. Resist the temptation to exit your position just because your neighbour or colleague is selling.

Bear markets bring rare opportunities.

Staying invested or increasing your position in down markets lowers your average buying price. That's why legendary investor Warren Buffett has famously said, "it is wise for investors to be fearful when others are greedy, and greedy when others are fearful." Bear markets force stocks to trade below their fair values and thus create a rare opportunity for investors.

For example, TSX energy stocks tumbled close to their decade-lows in the first half of 2020 amid the pandemic. Canada's biggest energy company **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) tumbled to $12 levels during those days. Today, after two and a half years, the stock is trading close to $70, marking a handsome total return of 500%.

Coming into 2022, CNQ has become stronger on the earnings front and even on the balance sheet front. Those who panicked in March 2020 amid the pandemic missed some massive gains. So, notably, quality businesses can withstand external shocks and outperform when the winds change. Note that CNQ kept raising dividends during the pandemic when peers suspended their payouts, highlighting its quality and business strength.

Bottom line

You are mistaken to think that those gains would have been possible if you had timed the markets back then. It's nearly impossible to get in at the lowest price and exit at the peak. So, the moral of the story is to practice disciplined investing. That is, keep putting your money in quality names irrespective of the market conditions.

Canadians have a top-notch solution to facilitate this strategy — the TFSA (Tax-Free Savings Account). It will encourage you to stay disciplined and also allow you to grow money tax-free in the long-term.

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TICKERS GLOBAL

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2. NYSE:SHOP (Shopify Inc.)
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