Where Will the Bear Market Bottom? History Offers a Very Clear Clue

Description

The Canadian stock market, using **iShares S&P/TSX 60 Index ETF** as a proxy, fell as much as 15% this year from peak to trough. A bear market indicates a correction of at least 20%. While the Canadian stock market isn't in bear market territory yet, many investors fear that it will follow the U.S. stock market, which had fallen 20%.

According to *Fisher Investments Canada*, "Dating back to 1929, the **S&P 500** saw 13 bear markets showing an average decline of 40% and lasting, on average, longer than 21 months." Often, the Canadian stock market moves in tandem with the U.S. stock market because of the closely knit economies. This time, the Canadian stock market has been more resilient due to its larger make-up of the energy sector and smaller size of the technology sector.

Money supply increased during the pandemic, which helped stocks recover super fast from the pandemic market crash of March 2020. It wasn't necessarily apparent at the time, but many tech stocks had inflated valuations with pundits quoting some valuations based on price to sales. Some tech stocks had no earnings and were losing money. When capital is abundant, the stock market rises.

Now that we're experiencing tightening of the money supply, the opposite happens. Specifically, stock price valuations have been depressed. Stocks that have little to no earnings or had the most elevated valuations would experience the largest declines. For example, tech stocks that had stratospheric valuations came crashing down to earth.

The U.S. stock market just entered the ninth month of the bear market. If history is telling, and this bear market were to last for at least 21 months, we still have at least a year to go.

There is no one indicator — based on fundamentals or technicals — that can predict a bear market bottom. Instead of guessing when the bear market will bottom, investors are better off staying Foolish by focusing on investing in wonderful businesses for the long term. You'd also be less stressful that way.

Remember that during market corrections, you can invest for higher long-term returns, as you can embrace opportunities to buy undervalued stocks. So, just stick to investing excess cash regularly into quality stocks.

Quality stocks are getting cheap

If you're really risk averse, you can turn your attention to quality stocks like **Fortis** (TSX:FTS). Because of high inflation and rising interest rates, the regulated utility's valuation has come down and is becoming more attractive for the long term. It is a very predictable business that makes it one of the top dividend-growth stocks on the TSX. Specifically, this is the 49th consecutive year that it has increased its dividend.

At $52.56 per share, it offers a nice yield of 4.3%. This may not seem like much when our most recent data for inflation was 7% year over year in August. However, our central bank is there to curb high inflation with rising interest rates. So, inflation will return to the 1-3% level in time. By then, Fortis stock's present yield would be quite decent, and the stock should trade at higher levels.

Right now, the 12-month consensus analyst price target is $61.32 per share, which represents 16.7% near-term price-appreciation potential on top of the solid dividend yield of 4.3%.

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kayng