A 2023 Bull Market? How to Prepare for an Upswing

Description

2022 witnessed one of the most severe bear markets in recent memory. The S&P 500 fell about 20%, and the tech-heavy NASDAQ index fell 30%. Canadian stocks fared a bit better. The S&P/TSX 60 Index fell only 9% for the year, thanks to its heavy concentration in oil — the best sector of the year. Still, it went down for the year.

At times like this, it's natural to feel nervous. It is natural to worry when stocks go down, because instinctively, declining share prices makes it look like you're losing money. However, it's often the case that when stocks go down, they rally all the more rapidly afterward.

In this article, I will reveal how to prepare for a possible market upswing in 2023.

Save cash

One of the keys to preparing for a bear market is to have money saved to invest. You can't invest without money, so saving is key. Technically, you can invest with borrowed money, but that's very risky (you can lose more that way), and it's definitely a questionable strategy this year when interest rates are high. So, focus on saving cash first. It will help you avoid risky debt-based investing strategies.

Carefully research which stocks you will buy

Once you have money saved to invest, you'll need to carefully research which stocks you're going to buy. This is the most time-consuming part of the investing process. To do adequate research on a stock takes many hours of work. You can shorten the process by buying index funds, which simply hold the entire market, but if you have individual stocks you want, you'll need to do your homework.

Consider **Alimentation Couche-Tard** (TSX:ATD) stock, for example. On the surface, this stock seems like a slam-dunk buy. It has risen over 1,000% in just over a decade, it has a great retail brand (Circle K) that's known all across Canada, and its management team has a great reputation.

It all looks great at a glance. But when you look into it, you can tell that Alimentation Couche-Tard is exposed to certain risks. It makes a lot of money selling fuel, so it's vulnerable to falling oil prices. It has significant debt, which creates interest expense. Finally, it sells cigarettes and alcohol, "vice" products that are subject to regulations, which could increase. After a quick look at these risk factors, you might ultimately decide that ATD stock is too risky. Yet there's still a deeper level of analysis after which you might conclude that the risk factors are overblown. For example, ATD's debt level is only 26% of equity (equity is assets minus liabilities), so it's not actually that high compared to what the company owns.

To truly understand a company, you need to consider these kinds of things. At first glance, big-name companies tend to look appealing. Then when you look deeper, you start to notice certain risks. When you look deeper still, the risks sometimes appear to be overblown. You need to look at all kinds of different factors to make an informed decision in a stock. So, be sure to do your research.

Buy

The final step in making investments is to buy stocks after having researched them. This is technically simple, but you might want to put some thought into which accounts you'll hold stocks in. If you hold stocks in a Tax-Free Savings Account, you pay no taxes on them, which is a big advantage. Definitely consider the different types of retirement accounts available before you buy stocks. When in doubt, speak with an advisor.

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