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DID YOU KNOW?

Facing a Recession and Bear Market? Avoid 3 Mistakes Many Investors Make

Report by Bruce Blythe
read full article at: https://tickertape.tdameritrade.com/market-news/bear-market-recession-investing-rebound-18045

What's Different About the Most Recent Bear Market and Economic Slump? In a word or two: speed and volatility. The S&P 500 took only 22 calendar days to sink into bear market territory this year, compared to an average of 251 days for the other 12 post–World War II bear markets, according to Stovall. The 24/7, lightning-round nature of today's markets combined with a global health crisis on a scale unlike anything in the modern era created a particularly volatile mix, Desai pointed out."This is one of fastest and deepest market downturns and economic contractions we've ever experienced," Desai explained. "The speed and magnitude of what we're experiencing, coupled with loss of life, creates exponentially more stress, anxiety, and fear."

What Are Common Mistakes Investors Make During Recessions and Bear Markets? The market's recent behavior has been dramatic in terms of volatility and price swings, "but at the end of the day, fundamentals of stock investing are still the same," Desai said. That makes it particularly important to try to keep emotions in check, maintain a disciplined investing strategy, and try to avoid these three common investor mistakes during market downturns.

Mistake 1: Selling at the bottom of a market.Nose-diving markets are often fueled by panic selling, which any investor with a long-term plan should avoid getting sucked into. Unload stocks during a slump, and you may just be locking in losses and eliminating any prospect of gains if prices recover. "It tends to be more prudent to ride out volatility and wait for the market to recover," Desai said. "History shows the best opportunities to accumulate assets often come after the worst periods for markets."

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Mistake 2: Trying to time the market using economic data.Many economic readings are lagging indicators—snapshots of a previous month or quarter. Investors might consider macroeconomic data in the context of company or industry fundamentals, Desai said. “Looking at macro data by itself can potentially cause you to be late to react to what the market is doing,” he explained. “It might be better to focus on valuations and the prevailing market sentiment of asset classes as well.”

Mistake 3: Being too concentrated in certain assets and not diversifying.Too many eggs in one market sector basket can be a recipe for trouble, and bear markets can change the way some companies are valued. For example, before the 2008–09 financial crisis, many financial companies were considered blue-chip, high-dividend-paying stocks, Desai said. “But as these companies collapsed, their market value largely disappeared,” he said. “If you’re not diversified, markets can re-price certain stocks permanently.”

Bottom Line on Recessions and Bear MarketsOther steps for investors to consider during bear markets and otherwise turbulent times? Understand how dollar-cost averaging can help you scale in and out of positions, recognize and avoid “bear traps,” and know key differences between bear markets and bull markets.Plus, maybe consider one other thing: chill out and talk to an advisor or other market professional, someone who’s ridden out rough markets before and could help you navigate through uncertainty. Above all, don’t let emotions get the best of you.“In markets like we’ve had recently, it’s a good idea to check our emotional temperatures, turn down the noise, and separate what we know from what we don’t know,” Desai suggested. “Step back, focus on objectives, and consider diversification.”Diversification does not eliminate the risk of experiencing investment losses.

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