



# Five Lessons To Remember During Bear Markets

## *The Stock Market has been trying to teach these lessons forever....*

The real value of a bear market may be that it gives investors, who are temporarily frozen within its grip, the opportunity to learn or relearn important lessons regarding risk and diversification.

For savvy investors, a bear market also creates a period for looking beyond emotional headlines and studying the hard facts – facts that can ultimately place them in a position to take advantage of coming opportunities.

Periods of falling equity prices are a natural part of investing in the stock market. Bear markets follow bull markets, and vice versa. They are considered the “ebb and flow” of wealth accumulation.

## **Remaining Balanced Can Pay Off**

Bear markets create apprehension in the minds of many people. That’s natural. However, any feelings of anxiety should be balanced with reason for anyone seeking financial success.

Anyone dubious about the need for a stable outlook should consider that virtually every bear market was followed by a better than average annual rate of return from the subsequent bull market.

## **Focus on Five Lessons**

Instead of taking a “time out” from the market, and missing out on potential opportunities, investors should focus on five key lessons the market has repeatedly been trying to teach everyone during its naturally occurring economic cycles:

1. Periods of falling prices are a common part of investing in the stock market.
2. An investment’s value will be greatly influenced by fundamental factors, such as profit and revenue growth.
3. Diversification, while it does not assure against market loss, often provides the safest haven against the ebb and flow of changing markets.
4. Invest over time, rather than make single lump-sum purchases. In other words, falling stock prices are the friends of dollar cost averaging investors (of course dollar cost averaging cannot guarantee a profit or protect against a loss in a declining market).
5. Take a long-term view when investing in the stock market. Short-term fluctuations are natural. (The investment price and underlying business often have little to do with each other over the short term.)

## **Planning Matters**

Remember that you’ll be inundated with all kinds of economic information during both bear and bull markets.

There will be reports, for example, about inflation, interest rates, and unemployment figures that may entice you to either give up on the stock market or invest in it to the exclusion of investments paying relatively smaller returns.

To avoid being lured to either extreme, develop a financial strategy that accounts for risks you find comfortable.

Review your investments on a regular basis to help ensure they are still relevant to your overall financial plan, and that you're staying on track.

Then trust yourself and stick with the plan.