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Bear Market Vs. Bull Market: How Can You Tell What We're In?

Most Canadians have likely heard that the COVID-19 has brought an 11 year bull market to a screeching halt. Investors are left reeling in these unprecedented times as they watched the market go into a downward spiral. Investors may hear the terms bear and bull market thrown out on the regular, but not many investors know what constitutes a bear vs bull market. While there is no strict definition of a bear and bull market, there are generally accepted conditions that determine what kind of market we are in.

Bear Vs Bull

Simply put, a Bull market is a market that is on the rise. Stock prices are appreciating, and there is a good economic outlook. In Bull markets there is a strong demand for securities as investors hope to take part in the companies' profits. Typically, a bull market is characterized as one that has grown by 20% following a decline of 20% or more. The bull market will continue until the next drop of 20% or more.

Alternatively, a Bear Market is used to describe a market that is in decline. Stock prices are depreciating and investors are starting to see significant losses that are expected to continue for an extended period of time. Bear markets are often intensified by investor behavior and their reactions to the potential for loss. Bear markets usually see a large sell off of securities as investors switch to fixed income. This sell-off fuels the downward markets spiral and it significantly lowers share prices. The economy will typically slow and unemployment rates may rise. Bear markets are declared when an index drops 20% or more following a prior gain of 20% or more.

So What Does That Mean for Investing?

No one ever knows what the markets are going to do or when they are going to do it. In a perfect world, securities would be purchased at their lowest point and then sold at their highest. Unfortunately, it's nearly impossible to time the markets with accuracy. Investors are best served by investing often and should be looking at putting a stream of money into the markets at regularly intervals. This way you will buy in all market conditions and decrease your risk of catastrophic market swings.

The thought of a bear market is daunting but it's important to remember that stock markets have always been subject to the types of fluctuations brought on by COVID-19.