Bear Markets As a Key to Future Wealth

By: www.ProfitableInvestingTips.com

The market is heading down and investors are mimicking the actions of rats leaving sinking ships. In the case of over-priced stocks in zombie companies, getting out is not only appropriate but long overdue. However, the vast majority of US companies listed on US stock markets will not only survive but prosper in the years going forward. With this thought in mind successful long term investors have typically viewed bear markets as a key to future wealth. The Warren Buffetts of the world use **intrinsic stock value** as a guide to pick stocks that will maintain their value over time and produce substantial returns for years after a bear market has come and gone.

Bear Market Investing and Early Retirement

The New York Times in an article about **investing early** and steadily writes that "when you are young, investing during a bear market can be great for your future wealth, and, perhaps, your eventual retirement." The ideal investments are when you buy at low prices and eventually sell at high prices. A problem that develops during a prolonged bull market is that stocks become overpriced when compared to the ability of the company to keep producing profits and generating higher stock prices. When viewed from this perspective the value of a bear market is that it adjusts stock prices to levels supported by fundamentals instead of overly optimistic **market sentiment**. In fact, negative market sentiment during a collapsing market will commonly take a stock price well below its fundamental or intrinsic value. Thus, the rationale for investing when there is a bear market is that one can purchase good stocks for less that what normally would be a fair market value. When these stocks are held for years, they have the potential to appreciate significantly and provide for a comfortable and early retirement.

Choosing Stocks in a Bear Market

New investors need to beware of picking cheap stocks in a bear market because they are cheap. Many such stocks are cheap because they deserve to be. They were driven upward in a bull market but are not likely to become long term profitable investments. Successful long term investors only invest in stocks when they fully understand what the company does to make money. And they only invest in such stocks when they understand how the company's business plan and execution are likely to keep producing profits for the long term. When these stocks have their prices driven down in a bear market, they change from being good investments to being excellent investments. A famous example is when Warren Buffett bought Coca Cola at the end of the 1980s. He bought it because he realized that it was the dominant company in its market niche, had a world-famous brand name, and was likely to keep generating profits virtually forever. Today the dividend on each of the shares that he purchased at that time exceeds the price paid for the stock. Tech companies like Microsoft have taken a beating this year but will recover and become excellent long term investments when purchased in a bear market.

It Is Difficult to Time the Market

The ideal situation is when one can predict exactly when your preferred stock will bottom out and start going back up. This is a difficult task for the best of investors. Thus, many long term investors use a technique called **dollar cost averaging**. With this approach one invests the same dollar value every week, month, quarter or year. When the market is high, they are buying fewer shares and when the market is low, they are buying more shares. With this approach an investor avoids buying too many shares when the market is high and missing out when the market is low.

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.