Stock Market Correction, Crash or Bear Market

www.ProfitableInvestingTips.com

The stock market goes up and it goes down. Many times your investments rise and fall as much from overall market activity as from specific intrinsic stock value factors. How much and for how long the stock market goes down can be a stock market correction, crash or bear market. Since 1950 temporary stock market drops of more than 10% have happened on the average every 23 months! Because at any time a stock market correction, crash or bear market may be just around the corner, investors need to be prepared.

What Is a Stock Market Correction?

When the stock market goes down ten percent or more over several days to a week, or even a month, that is a correction. This happens in US markets a bit more often than every two years on the average. Usually, the market recovers over the next few months. That is because there is quite a bit of panic selling when a correction occurs. There may even be instances of speculators being caught in a short squeeze as well. Because the fundamentals of the market are generally sound, corrections recover.

What Is a Stock Market Crash?

In a stock market crash stocks fall by ten percent or more but it all happens in a single day. When the market crashes there is a widespread loss of confidence. The most devastating stock market crash in US history was Black Thursday, October 24, 1929. This was the beginning of the gigantic slide in the market that brought on the Great Depression. But, the 1987 Black Monday crash began to recover the next day and the total market came back by 1989. Although the initial damage of a crash may be no worse than a correction, it happens a lot faster and tends to be associated with further problems in the market, sometimes for years.

What Is a Bear Market?

A bear market may start with a slow correction or a rapid crash but in this case the market falls by more than 20%. Bear markets occur market sentiment expects long term, fundamental problems and a prolonged fall in cash flow. This happens when there is a severe economic recession. While individual stocks may enter their own bear market, the term is generally used for the whole market and affects the whole economy. In fact, some selected stocks may do very well during a bear market. Many investors pivot into consumer stocks or even stock like beer companies as these businesses keep making money even in a weak economy.

Is a Stock Market Crash Coming?

The stock market has been going up ever since the depths of the Financial Crisis. Over the last dozen years there have been a few corrections but always recoveries. Those who have predicted a severe, prolonged bear market had been wrong until the Covid-19 crisis and then they were only partially right as the shape of the recovery turned into a K-shape that allowed tech to prosper while transportation, hospitality, and other sectors languished. But, as the Covid-19 crisis promises to improve, the issue is still here. Is a stock market crash coming?

What Is the CAPE Ratio?

As noted by *The Motley Fool*, the persistently high CAPE ratio is the leading indicator of a coming stock market crash. The CAPE ratio is the P/E ratio averaged out over the preceding ten years. It provides a longer-term view of stock prices and their relation to earnings. The CAPE is currently greater than 30 and the last four times it remained in that region, the S&P 500 suffered losses between 20% and 80%. If you believe that the high CAPE ratio is of concern the answer is not to put all of your money under a mattress but to prepare. How can you prepare for a stock market correction, crash or bear market'

How Can You Prepare for a Stock Market Correction, Crash or Bear Market?

The Fool gives us five suggestions for how to prepare for a down market. These are generally good investment suggestions to keep in mind at all times.

- Assess and understand your risk tolerance
- Review your portfolio with a down market in mind
- Hold some cash
- Consider dividend stocks
- Focus on value when searching for bargains and in the early stages of a recovery

There is a mindlessness that creeps into one's investing as a bull market continues. There comes a point at which no matter where you put your money it grows. And, then it doesn't. Don't gamble with money that you cannot afford to lose and have a plan for when you will start taking profits and rotating into safe value investments.

Warren Buffett famously got out of the market in the run up to the dot com crash as he said the market no longer made sense. Thus he was sitting on a pile of cash that he employed to pick up bargains afterward. This has, in fact, been what he has done in virtually every crash and bear market for decades. His example is a good one to follow.

Folks nearing or in retirement typically need or at least like a steady income stream. Dividend stocks are always good to have in your portfolio and this is especially true when there is a risk of a stock market correction, crash or bear market.

Every time that the market corrects, smart investors buy the dip on solid investments. Having cash on hand gives you power when the market weakens. Couple with this the realization that you have not made a true profit from your investments in a soaring market until you have taken a profit and you have another reason to have cash on hand.

Click the links below to get your FREE training materials.

Free Weekly Investing Webinars

Don't miss these free training events!

http://www.profitableinvestingtips.com/free-webinar

Forex Conspiracy Report

Read every word of this report!

http://www.forexconspiracyreport.com

Get 12 Free Japanese Candlestick Videos

Includes training for all 12 major candlestick signals.

http://www.candlestickforums.com