Don't fear the Bear!

How understanding the bull and bear market can help you become a better investor

In investing, the terms "bull" or "bear" are used to describe market conditions. They generally refer to the performance of the stock market – whether prices are rising or falling. As an investor, it is very important for you to understand how markets work as they can impact returns on your investments. A good understanding will help you know the best move to make to maximize returns on your investment when market conditions change.

Bull market vs. bear market: what are the differences?

A bull market is simply a market that is on the rise while a bear market is one that is on a decline.

A bull market happens when investors are optimistic about the growth potential and profit outlook for companies. When investors feel positive, stock prices generally rise for an extended period until hitting a peak.

A bear market is the opposite, where investors turn pessimistic and stock prices generally decline for an extended period before hitting a bottom. Bear markets can last for months – even years – and see stock prices fall significantly.

When you invest in stocks or equity based mutual funds, day-to-day market volatility is a fact of life. There are times when stock prices stay higher or lower for longer periods and no one actually knows which will happen next.

Investors, generally, have no problem with bull markets – everyone is happy and they tend to invest more. The problem is with bear markets. When prices are going down (as we are currently experiencing), investors resort to a range of solutions to protect their money but most of them only make the situation worse. So what do you do when a "bear" is lurking around and threatening to "devour" your investment?

How to better handle a bear market

The Ghana Stock Market is currently experiencing a bear market as prices have fallen by over 25% since 2018 (as at October 2020). If you invest in an equity mutual fund or a balanced fund that has exposure to equities, you can expect to see your investments also experience a decline in performance. Note that the extent of the decline will depend on how much equity the Fund holds. When we are in a bear market, it is natural to panic and want to withdraw all you have before it gets worse.

At Databank, we believe you don't have to Fear the Bear. Information is key to helping you "tame the bear" in the market. Here are 5 tips to help you do this:

1. **Keep focused on the long-term.** As we have said many times, the market goes up and down all the time – it's a normal part of the cycle. That is why we advise that if you intend to invest in equities, you should be prepared to stay invested for a minimum of 5 years to account for any negative market cycles. You don't want to risk investing for one year in equities and that is the year that the market dips. Plan to invest for the long term and stick to it.

2. **Be diversified.** If you have the risk appetite to invest in equities, then diversification should be a key part of your strategy. It is good to balance out your equities with fixed income investments as they behave differently depending on the market cycle. While a bear market can still affect your investments, diversification can help reduce the effects of an equity market downturn.

3. **Stay calm.** An investor's greatest enemy is emotion. When markets are falling it's best to avoid selling out of fear as you will only lock in your losses. However, if you don't genuinely need the money and are willing to be patient and wait out the bear market cycle, you are likely to reduce the impact of your losses or even recover and gain on the value of your investments before the market went into an extended negative period.

4. **Consider getting advice.** If you are not a knowledgeable investor, a licensed advisor can help you choose investments that best fit your risk tolerance and manage your investments so that it can weather different kinds of markets. They can also be there to help you avoid making rash decisions during a downturn – like selling at the bottom when you don't have to.

5. **Revisit your risk tolerance.** If the prospect of a bear market is keeping you up at night, you likely have a low risk tolerance. It is important to note that your risk tolerance can change over time – it can go from low to high as you move from being a new investor to a more sophisticated one; it can also go from high to low depending on events such as a financial crisis, change in your financial situation, etc.

There is no right or wrong answer, but an advisor can help you reconfirm your risk tolerance and ensure you have the appropriate mix of investments – this exercise should be done annually. Additionally, if you're approaching a big goal where you will need to draw on your investments (e.g., purchasing real estate, retirement, starting or expanding your business), then you might also want to talk about rebalancing your portfolio to avoid a major loss at the wrong time.

A bear market is nothing to fear if you are an informed investor and your investments match your risk tolerance. Being an informed investor is the key to investing wisely. If you are still concerned and would like advice on what to do, you can contact Databank on **0302 610610.** You can also send an email to info@databankgroup.com with the subject "Don't fear the Bear" and we will get back to you.

Remember, **you don't need to Fear the Bear!**

Invest wisely. Invest with Databank.