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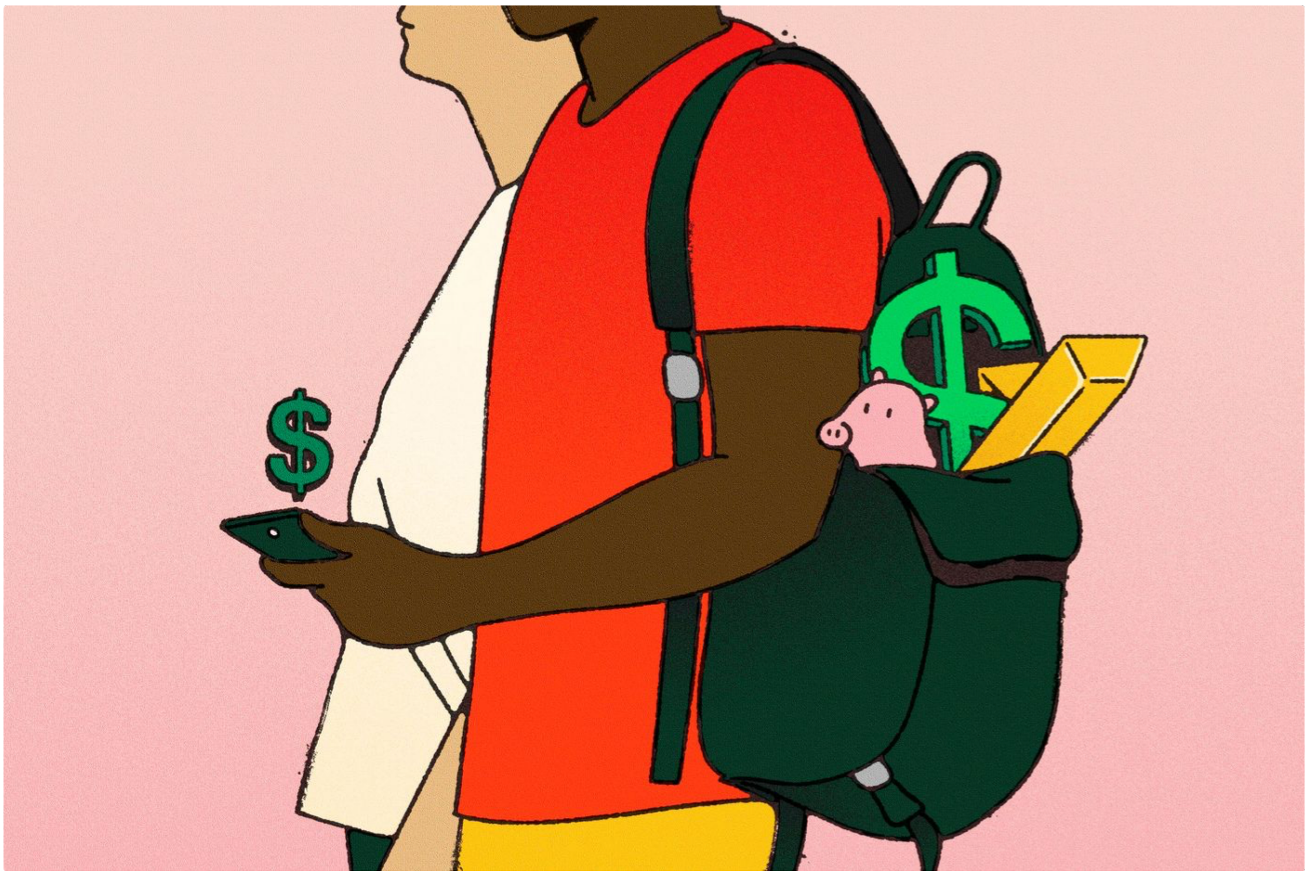
6 Tips for Surviving a Bear Market

By Sabrina Escobar Follow Updated July 25, 2022 / Original July 24, 2022



Stock market downturns happen and can be opportunities. Here's how to invest during hard times. Illustration by Alberto Miranda

If you're new to the stock market, you've probably had a rude awakening: The value of your investments has declined in the past few months.

While that may be worrisome, don't panic. A bear market—defined as a stock-market decline of 20% or more—occurs from time to time. Stocks typically slide into a bear market when investors worry that economic conditions will slow, stunting companies' earnings growth. Recession fears have been elevated since the start of this year, when the

Federal Reserve indicated it would get serious about raising interest rates to curb soaring inflation.

The most recent bear market occurred in February 2020, when the coronavirus pandemic sent a shock through the global economy and markets. But the selloff was over almost before it began. In late March, when it became clear that many central banks and governments would backstop companies and consumers, stocks started rising again. And by August 2020, the S&P 500 **SPX –1.33%** , the benchmark U.S. stock-market index, was making new highs.

Other bear markets, including the bear market that resulted from the 2008-'09 financial crisis, lasted much longer than a month. But even in a bear market, there is a lot you can do to position yourself for long-term financial health.

Most important, stay in the market. As Emily Roland, co-chief investment strategist at John Hancock Investment Management, says, time in the market beats "timing" the market, or trading in and out based on suppositions about where prices might be headed. Between 1928 and 2021, rolling 10-year stock returns have been positive 94% of the time, according to John Hancock's data.

"If you're in a wealth-accumulation stage of life, you want cheap stocks," says Rob Arnott, founder of the money-management firm Research Affiliates, "You should be rooting for a bear market."

So how should you invest during a bear market? Here are six other tips to help you navigate any market.

1. Enroll in Financial Fundamentals 101

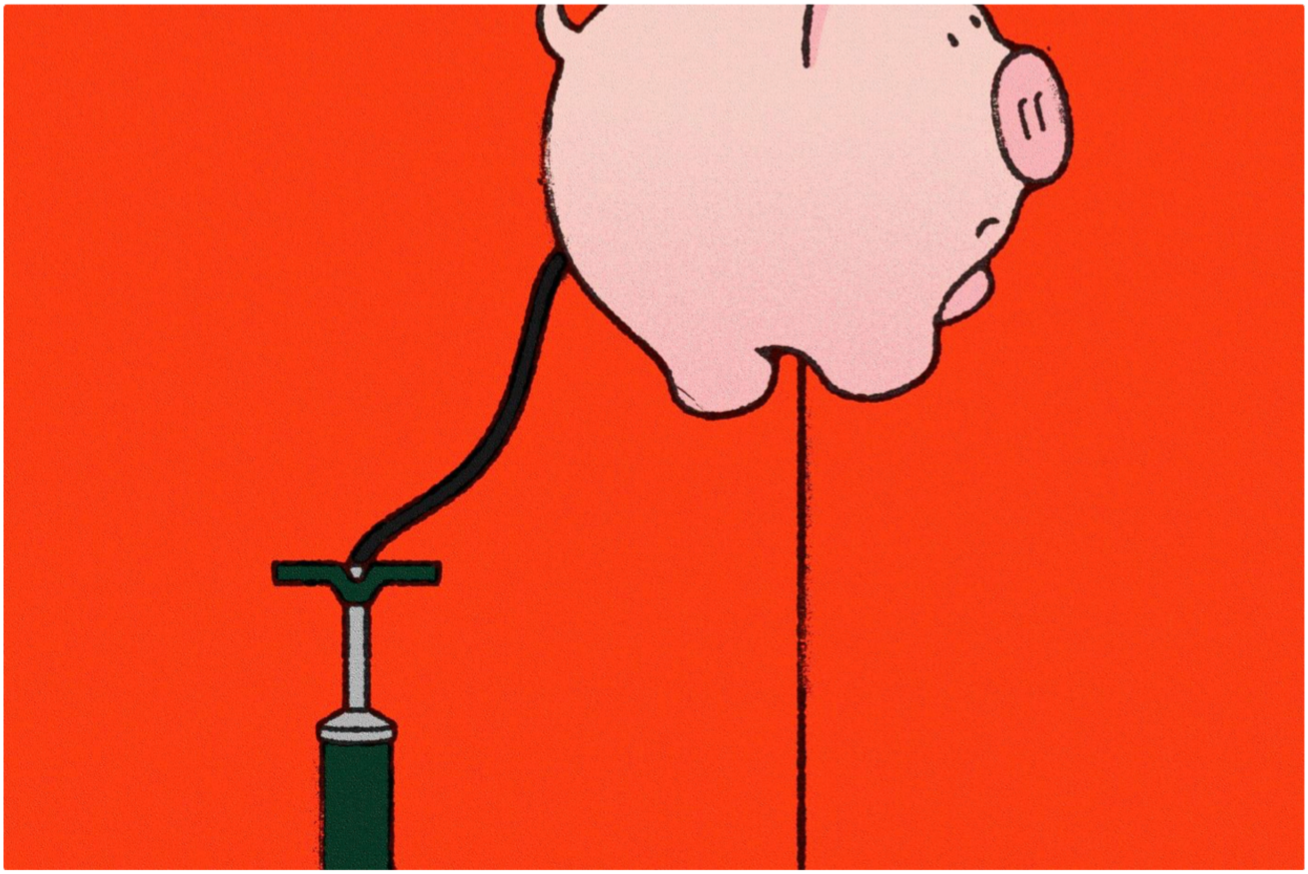


Illustration by Alberto Miranda

Before investing money in the stock market, first-time investors should focus on strengthening their financial fundamentals, says Catherine Valega, a certified financial planner with Green Bee Advisory. Prioritize building up an emergency savings fund with at least six months' worth of living expenses, she says. This is even more crucial with the economy slowing, and potentially heading for a recession, which could lead to layoffs.

Set up a retirement savings account, too, either through a work-sponsored 401(k) retirement plan or an individual retirement account, or IRA. Once you have an account, work toward maximizing your annual contributions to the degree allowed by the law. At the least, try to increase over time the percentage of your paycheck going toward your retirement account, Valega says.

2. Pay Down High-Interest Debt

Illustration by Alberto Miranda

Another priority for young investors should be paying down high-interest debt, says

Vivian Tu, a financial-literacy content creator on TikTok. In Tu's view, this is any debt with an interest rate above 7%, including most credit-card debt. With interest rates likely to keep rising, that debt could get more expensive, she says.

3. Invest in Sensible Assets and Diversify Your Portfolio

Illustration by Alberto Miranda

A good way to capitalize on the stock market's long-term upward momentum is to invest in a mutual fund or exchange-traded fund, or ETF, that tracks the S&P 500. The SPDR S&P 500 ETF **SPY –1.33%** (ticker: SPY) is an example. If you have a retirement

savings account, you can also choose to invest in a target-date fund tailored to your expected retirement date, which alters the stock/bond mix as you age.

For investors who want to be more hands-on, Tu recommends focusing on consumer-staples stocks and shares of industrials, materials, and energy companies, which aren't as dependent on consumer spending. But only invest what you think you can afford, and avoid putting money in the market that you might need in the next year, Tu says.

Diversification is another important element. Don’t invest all your money in one stock or asset, says Anne Lester, former head of retirement solutions at JPMorgan

JPM –1.82% asset management. Instead, try to have a diversified mix of high-quality bonds and stocks, she says.

4. Use Dollar-Cost Averaging

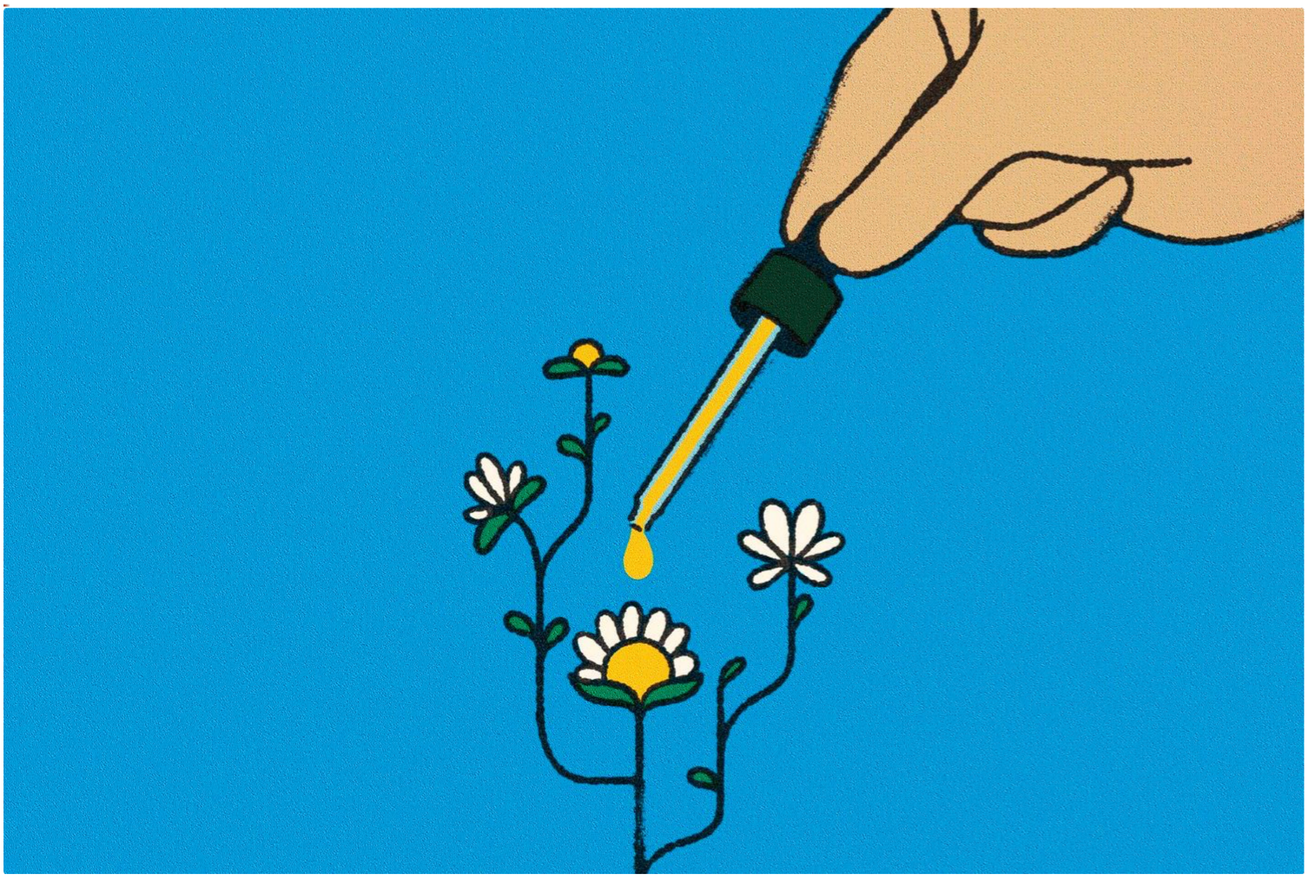


Illustration by Alberto Miranda

Rather than investing a lump sum in the market, Valega recommends dividing up that money into equal portions and investing it periodically. This strategy is called dollar- cost averaging. Investors who dollar-cost average buy more shares of an investment when the price is low, and fewer shares when the price is high, which averages out to a lower average cost over time. Regular contributions to retirement accounts such as 401(k)s are a form of dollar-cost averaging.

5. Don’t Get Hooked on “Sexy” Investments

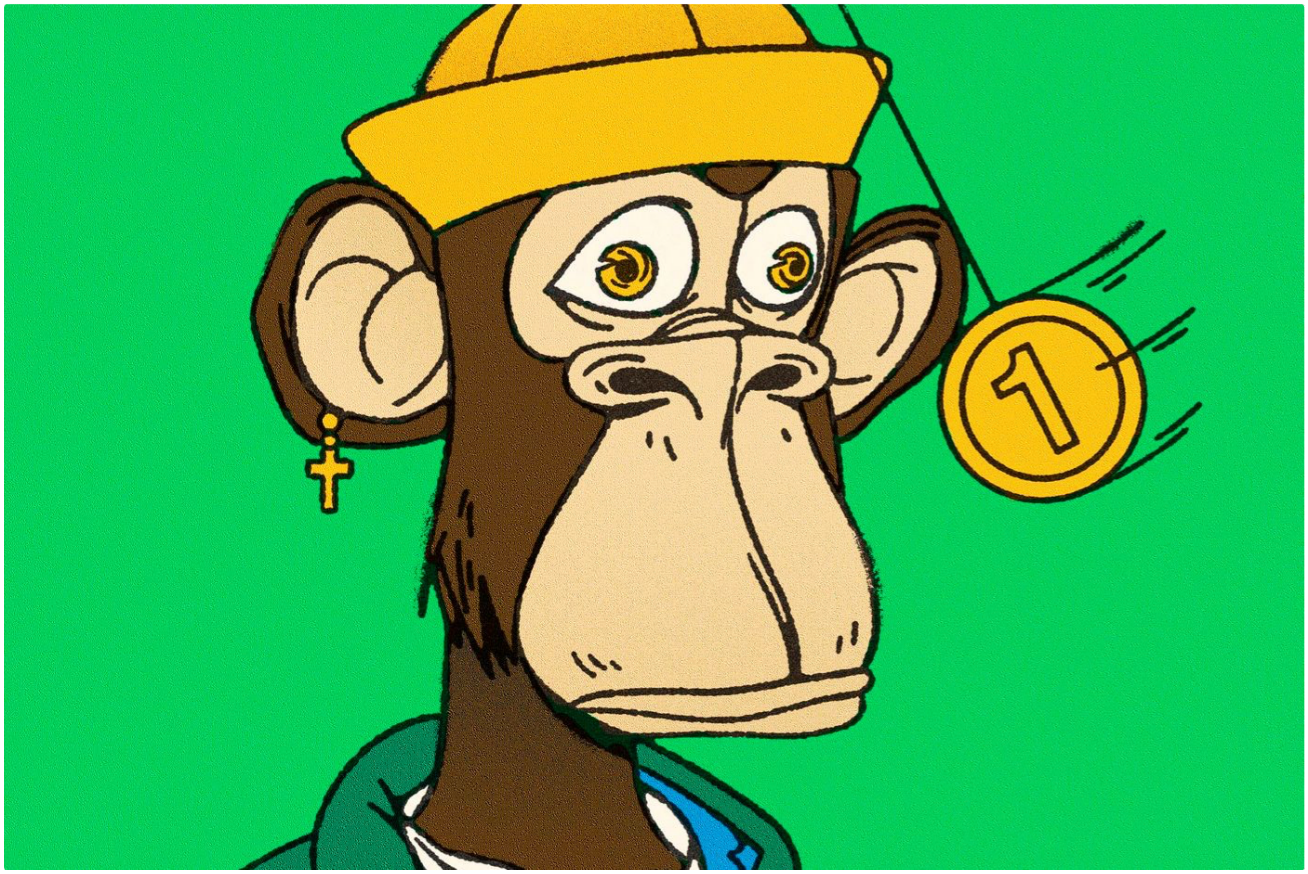


Illustration by Alberto Miranda

Bear markets might not be the best time to invest in riskier assets, such as cryptocurrencies, nonfungible tokens, and highly speculative stocks, Valega says. If a young investor is heavily invested in crypto, for instance, she recommends finding ways to diversify into more traditional assets, such as stocks and bonds, to cushion the volatility. “I’m not against it, but just do that with money you can afford to lose,” Valega says of trendy investments.

6. Research, Research, Research

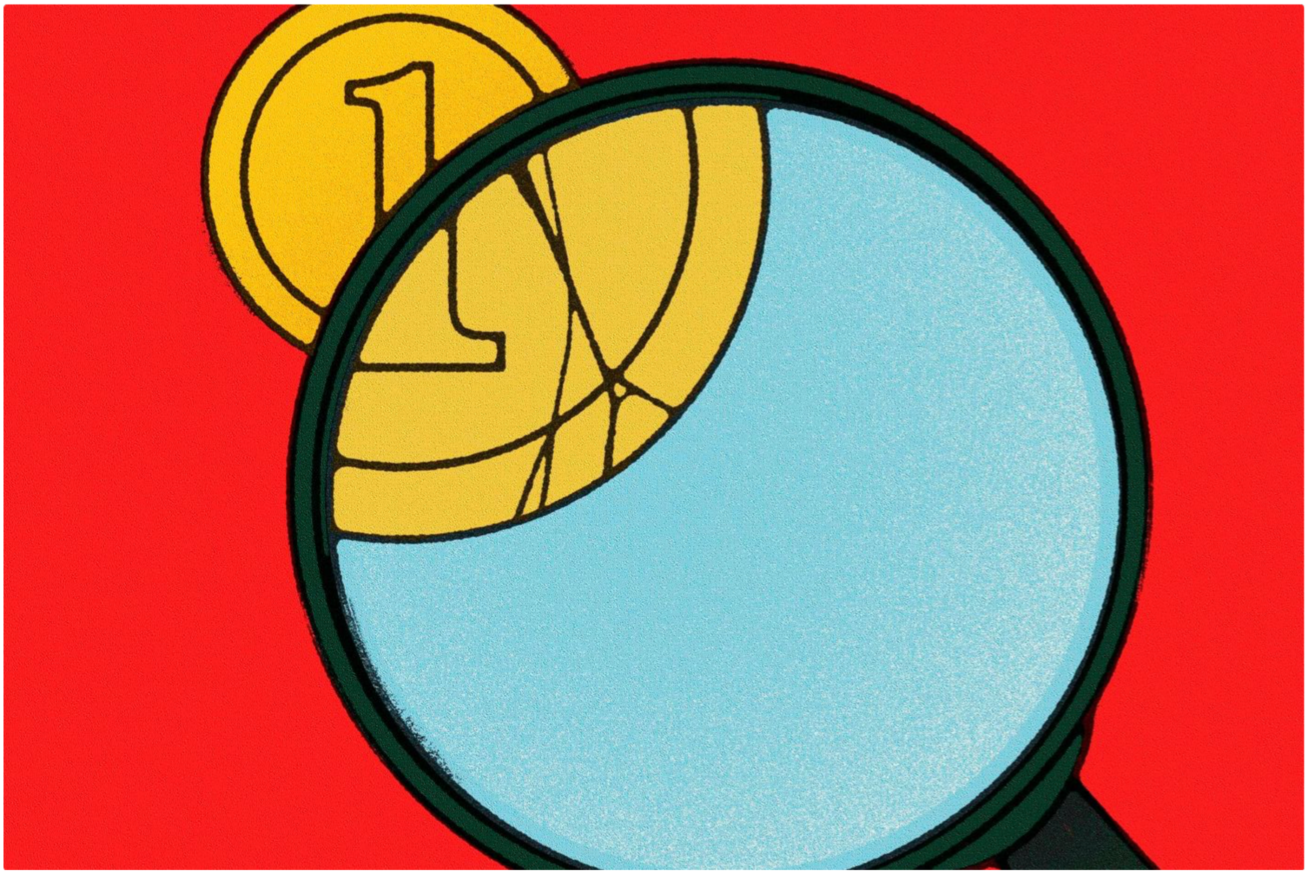


Illustration by Alberto Miranda

Always do your homework before investing in any asset, whether stocks, bonds, funds, or cryptocurrencies. Social media might be a good starting point, Tu says, but it's important to verify what you learn with a more authoritative source, such as a respected financial publication, a financial institution or adviser, or an expert in the subject matter. Lester recommends websites such as Investopedia and NerdWallet , which aim to increase financial literacy.

Online brokerages, such as TD Ameritrade, Fidelity Investments, Robinhood **HOOD –5.10%** (HOOD), and Charles Schwab **SCHW –4.08%** (SCHW), offer

customers a plethora of information on individual stocks and funds. Key resources are brokerage analyst reports, stock screens, and tools to conduct more technical analysis. Or, you can go straight to the source, reading companies' regulatory filings or fund prospectuses.

The markets confound amateurs and experts alike. But if you develop a savings plan and an investment program—and stick with them—you'll be off to a good start.

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