Canaccord Genuity Wealth Management

# Financial Focus

Becker Orr Wealth Management

May 2020

## Investing During a Bear Market

**By Clinton Orr**

Stock market declines are nerve racking. No investor likes to see their portfolio decline. The old adage, however, is to buy low and sell high. A silver lining to a bear market is that it creates an opportunity to buy low. The math supports this idea. It shows there are accelerated returns for those that invest during the market lows. For example: if the stock market drops 35% there must be a significant bounce off the bottom to fully recover. From the low point the market must gain about 54% to fully recover. That is a significant gain and often the reason people try to invest during a market downturn. However, that view is a little simplistic. No one knows where the exact bottom of the market will be, recoveries are not immediate, they take time and bear markets can stir up lots of emotions. Investing during turbulent times is not easy. Below we review a few strategies of how to add money to your portfolio during a bear market.

**Lump Sum:** The simplest method is to just dump the money in. You are not trying to pick the bottom, no second guessing, when the money is available it gets invested. While this method is the simplest, the downside is that it has the greatest chance of regret. If you invest a lump sum and then the market drops further, in the long term you will likely do just fine, but in the short term you probably won't feel so great.

**Strategic:** Pick an entry point in advance. If stocks drop 20%, I am putting more money in, for example. You set a threshold and then invest when the market hits that mark. The negative of this strategy is that the market might not play along. We might set our threshold at 20%, but stocks might only drop 17% and never hit our threshold. If you follow this investment model it is a good idea to have a plan B.

**Average In:** Once you have decided to invest break the money up into chunks and then invest those pieces on a pre-determined schedule. Perhaps you want to invest $40,000 during the market lows, well break it up into $10,000 chunks and invest one every two weeks. How many chunks and the time period between each investment can vary, the idea is to create a schedule and stick to it.


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**Mix and Match:** All the above options have good features and drawbacks. It makes sense to combine them. Perhaps some the money will be invested as a lump sum, a portion if the market hits a certain threshold and the rest will be put in on a pre-determined schedule.

Investing during a bear market can be tough and there is lots of emotion. While in the long term the money you added might be profitable, in the short term it can be stressful. No one knows where the exact bottom will be and bear markets are turbulent, there is a good chance you will put money in and, in the short term, the markets will move lower, which makes investing during turbulent times nerve racking. The above strategies encourage you to form a plan and to try and take some of the emotion out of it.

You do not have to put extra money into your portfolio during a downturn. To fully benefit from the investment, you must be able to tolerate a certain amount of risk and have a long-term time horizon. It is not for everyone. Like any investment, you will want to chat with your advisor prior to investing to ensure it is right for you.

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