Spread bets and CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **71% of retail investor accounts lose money when trading spread bets and CFDs with this provider**. You should consider whether you understand how spread bets and CFDs work and whether you can afford to take the high risk of losing your money.

How to trade in a bear market: Key strategies

By Jasper Lawler

Edited by Jekaterina Drozdovica

16:21 (UTC), 2 December 2022
Updated

We share some actionable strategies traders can use during a bear market. – Photo: zef art / Shutterstock.com

Trading in a bear market is not an easy task but can be done. If you know **how to trade in a b market** and you can hold your emotions in check, it can be a period with many opportunities

Here we take a look at the different aspects of trading a bear market.

What is a bear market?

A bear market is when stock prices are falling, typically over a sustained period of time. It can last for months or even years, and has a devastating effect on the economy.

This type of market is characterized by high levels of market volatility, as investors become increasingly worried about future prospects, selling off their securities, which can cause prices to fall even further.

While a bear market can be triggered by a number of factors, most often it is the result of economic uncertainty or an expected slowdown in corporate earnings.

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Different types of a bear market

There are three main types of bear markets: cyclical, structural, and event-driven.

Cyclical bear markets are typically caused by an economic recession, when businesses are forced to cut back on spending and investment. This type of a bear market usually lasts for one to two years.

Structural bear markets are caused by long-term problems in the economy, such as declining productivity or demographic changes. They tend to last for several years.

Event-driven bear markets are caused by a specific event, such as a natural disaster or a financial crisis. They can last for a few weeks or months.

Taking some time to analyze which type of bear market you're in can greatly improve the chances of your bear market trading strategies working out.

For example, event-driven bear markets can offer some of the best buy-the-dip opportunities that you will see in your trading career. That's because the phenomenon that caused the bear market is typically short-lived and the market often quickly recovers. Note, however, that all investment contains risk.

However, understanding that the bear market is structural could mean a lot more patience is required before finding suitable investment opportunities.

Are we in a bear market?

The strict definition of a bear market is when the stock market, often judged by a national stock index, has closed for the day 20% down or lower from its 52-week high. By this definition, the S&P 500 (US500) entered a bear market on 13 June 2022.

Looking at the above chart, you can see the index dropping from a high at 'Point A' of 4,820 to a low at 'Point B' of 3,635. This means the index fell 24.6% (i.e falling by more than 20% that defines a technical bear market).

Although the index has slightly recovered since then, it still trades 14% down year-to-date, as of 2 December. At its lowest point this year in October the index was down over 25% from January highs. To enter a technical bull market, the S&P 500 would need to climb 20% from its previous low point.

Other global indices have performed differently, helping demonstrate a point that we will make shortly for how to invest in a bear market using diversification.

Germany's DAX 40 (Germany 40) fell into a technical bear market in February 2022 owing in part to its geographical sensitivity to the war in Ukraine, yet since has recovered some of the losses, trading 8% down year-to-date.

The UK's FTSE 100 (UK100) has been one of the more stable stock indices during the 2022 bear market. The heavy weighting of energy and mining companies that have benefitted from a bull market in commodities and low weighting of volatile tech stocks goes some way to explain the outperformance.

The FTSE 100 fell from a high of 7,685 at 'Point A' to 6,750 at 'Point B', which is over 11%.

A fall of over 10% is considered a market correction.The index has since recovered, trading flat year-to-date.

“European equities have witnessed a strong bounce off their lows, and Europe has been the best-performing regional equity market over the past two months,” said Thomas McGarrity, head of equities at RBC Wealth Management.

McGarrity pointed to three factors that have contributed to European outperformance: the decrease in energy price differentials between Europe and the US; China’s plan to relax Covid-19 restrictions and USD retreat over the euro.

“Looking ahead, we think the biggest risk to both European equities and the euro is the potential for renewed upwards pressure on energy prices. This would likely sour sentiment towards the region once again,” McGarrity added.

How to trade in a bear market?

Here are some actionable strategies traders can use during a bear market.

Bear market rallies

A bear market rally is a short-term increase in stock prices during a longer term period of decline. This is typically defined as a rally of at least 10% from the recent lows. Buying stocks before a bear market rally is one of the key trading strategies in a bear market.

When a bear market rally occurs, the price change over a short period can be very rapid, but it’s important to remember that just because the market has recovered from a recent dip, it doesn’t mean that the downtrend has changed. It is more likely that the rally is just a temporary and isn’t a genuine change in the trend.

Bear market rallies

Therefore the strategy is to buy into the short term during the positive momentum, then quickly take profit before the upside fades and new sellers come in to sell the bounce.

Short-selling

Short selling is the sale of a security without owning the underlying asset, in the hope that the price of the security will fall to be bought back at a lower price. It is the opposite of going long on a security, which is when an investor buys a security with the hope that its price will rise.

When day trading bear markets, there is a higher probability that trading setups will tend to in line with the broader trend, which is down. Short selling can be a risky strategy, since the price

of a security can continue to rise indefinitely. However, short selling can also be a way to hedge against declining prices during a bear market.

Stop losses and limit orders

Timing is especially important when trading a bear market, which tends to be more volatile than a bull market. Entry and exit orders can be used to help.

It is important to use stop-loss orders when trading a bear market. A stop-loss order is an order to sell an asset at a loss when it reaches a certain price. By using a stop-loss order, you can limit your losses if the rally turns out to be a false one.

A take-profit order can be used to quickly lock in gains during a bear market rally or when short-selling before the market changes direction.

Trading indices & ETFs

"Only when the tide goes out do you discover who's been swimming naked."

by Warren Buffett

There is an old stock market adage that "a rising tide lifts all boats". In a bull market the majority of stocks are rising. In the decade-long bull market since the 2008 financial crisis, index-tracking exchange traded funds (ETFs) became especially popular as they tended to outperform most mutual funds.

Legendary billionaire investor Warren Buffet famously turned this saying on its head, saying: "Only when the tide goes out do you discover who's been swimming naked."

During a bull market, buying and holding ETFs tends to be a suitable strategy. ETFs can also be a place to put money in a bear market, either for short-selling or when you think the bear market may be close to an end. Those looking for ways of how to invest in a bear market may consider buying those ETFs that have sound fundamentals at a discount, in other words "buying the dip".

Note however that all investment and trading contains risk, and past performance does not guarantee future returns. Always conduct your own due diligence before trading or investing, and never risk money you cannot afford to lose.

FAQs

What is a bear market?

How long are bear markets?

How to trade during a bear market?

Markets in this article

UK100
UK 100
8285.3 USD
▲ 1.4 +0.020%

US500
US 500
5633.0 USD
▲ 13.1 +0.230%

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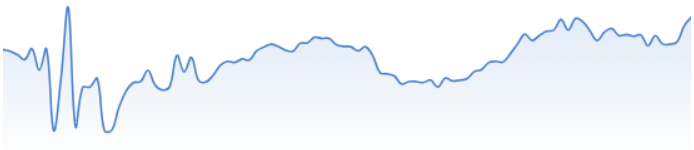
Most traded

US100
19898.0

J225
38422.5

US30
40946.0

+0.090%



US500
5633.5

DE40
18504.5

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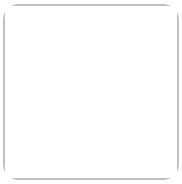

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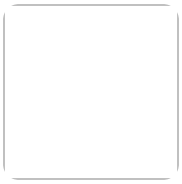

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You can still benefit if the market moves in your favour, or make a loss if it moves against you. However, with traditional trading you enter a contract to exchange the legal ownership of the individual shares or the commodities for money, and you own this until you sell it again.
CFDs are leveraged products, which means that you only need to deposit a percentage of the full value of the CFD trade in order to open a position. But with traditional trading, you buy the assets for the full amount. In the UK, there is no stamp duty on CFD trading, but there is when you buy stocks, for example.
CFDs attract overnight costs to hold the trades (unless you use 1-1 leverage), which makes them more suited to short-term trading opportunities. Stocks and commodities are more normally bought and held for longer. You might also pay a broker commission or fees when buying and selling assets direct and you'd need somewhere to store them safely.

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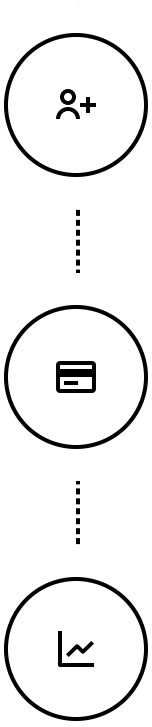

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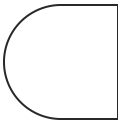

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