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Bull market vs Bear market: Everything you need to know

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Edited by Jekaterina Drozdovica

10:14 (UTC), 27 May 2022

Bull market vs Bear market: Everything you need to know Photo: Sittipong Phokawattana / Shutterstock.com

Bulls make money, bears make money - pigs get slaughtered. That's an old saying from the world of investing, but why all the 'animal talk'?

What is a bull market vs bear market?

Investors use animal names to refer to the dominant characteristic of financial markets and the opinions that investors hold about them. Probably the two best known examples of this are bull versus bear markets. Another example is hawks versus doves.

Bull investor vs bear investor - what's the difference? The term 'bull' is used to describe those investors who are optimistic about the market and believe that prices will rise. 'Bear' describes an investor who is pessimistic about the market's future direction and believes that prices will fall.

These terms can also be used to describe the market's mood or sentiment. A bullish market is characterised by high optimism and buying activity, while in a bearish market pessimism and selling activity prevail.

Bear vs bull market explained

The use of bulls and bears in financial terminology dates back to the 17th century. In bull vs bear market history, the first recorded use of the term 'bull' to describe the stock market was made on the London Stock Exchange (LSE) in 1769. 'Bear' was first used eight years later in 1787, also on the LSE.

The terms are thought to have come from the way these animals attack. A bull attacks head on by thrusting its horns into the air, while a bear approaches from the side and swipes its claws down. These actions are analogous to the way prices move in the market. Prices rise in a bull market and fall in a bear market.

bears vs bulls

Historically, in terms of bulls vs bears stocks, equity market benchmark indices tend to spend more time rising than falling. This is linked to a psychological element of trading and loss aversion, where during a market crash traders tend to panic and sell-off quickly.

Prices can also simply move sideways, which means staying on the same level for a prolonged period of time.

Other markets like forex and commodity futures tend to move in and out of bull and bear markets more regularly due to higher volatility.

What is a bull market? Key characteristics

Bull markets are generally associated with good economic conditions and strong investor confidence. There are several key characteristics of a bull market:

- Prices are rising. This can be seen in the market, where prices of shares and other securities are going up in value. Some investors will define a bull market as having risen more than 20% above its 52-week low. This means the market is 20% higher than its lowest point over the past year.
- Increased investor confidence. This means that more people are investing money in the market, confident that they will see a return on their investment.
- There are generally good economic conditions. This means that the overall economy is doing well, with low unemployment and strong growth.

As seen in the graph below, the bull market for the Dow Jones Industrial Average (DIJA), a benchmark US index, happens when the price is on an upward trend.

Dow Jones Industrial Average (DJIA) bull versus bear markets

What is a bear market? Key features overview

During a bear market, prices are falling and investors are pessimistic about the future. Bear markets can last for months or even years, resulting in a negative impact on investors and the economy.

The key characteristics of a bear market are:

- Stock prices tend to fall across the board, with few if any companies immune from the decline. This can lead to widespread panic and selling as investors try to get out before their losses become too great.
- Bear markets are often accompanied by a high degree of uncertainty and pessimism. Investors may become reluctant to commit their capital to new projects, leading to a slowdown in economic activity.
- Bear markets can be difficult to predict and may catch investors by surprise. This can lead to substantial losses as investors are forced to sell their holdings at a time when prices are low.

While there is no precise definition of a bear market, it is generally considered to occur when stock prices fall by 20% or more from their previous peak.

What is the difference between a bull and bear market?

The most important distinction in bull vs bear trading is that prices rise in a bull market and fa
a bear market.

Other characteristics such as trading volumes and market volatility are not so important to define the difference between bearish and bullish markets.

Trading and investing in bull market

Different investing and trading strategies can be employed depending on market conditions, taking into account factors like the market trend and price volatility. Below are three potential options to consider for bull market trading.

Note that all investing and trading contains risk. The strategies provided below shouldn't be used as a substitute for your own research. Always conduct your own due diligence before trading or investing. Keep in mind that past performance does not guarantee future returns. And never invest or trade money you cannot afford to lose.

Buying growth stocks

A bull market is when the equities are in an overall upward trend. This can be a good time to buy growth stocks because they tend to outperform other types of shares in rising markets.

Growth stocks are typically shares of companies that are growing at a faster rate than the overall market. In a bull market, share prices put a greater weight on growth versus other variables such as stability or dividends. Growth stocks tend to be more volatile compared to other stocks, but they can also offer higher returns.

If you're considering buying growth stocks in a bull market, it's important to do your research and carefully select the stocks that you believe will perform well.

Stock picking

Another old investing saying is that a rising tide lifts all the boats. This means that it tends to be easier to pick winning stocks when stock markets are going up.

In a bull market, stock picking is all about finding the right companies to invest in. That's why it's important to do your research. Keep an eye on overall market trends so that you can identify which sectors and investing themes are popular and performing well.

Passive investing

Passive investment strategies tend to outperform active ones during a bull market, which is characterised by low turnover, high returns and little volatility.

Passive investors seek to maximise returns by investing in a diversified portfolio of index-tracking and other exchange traded funds (ETFs). Active investors, on the other hand, seek to beat the market by picking stocks, timing trades and actively managing their portfolios.

The classic asset mix for a passive investor is to use the 60/40 portfolio. This is where 60% of the investor's assets are in equities and the other 40% is invested in fixed income or bonds.

Trading and investing in a bear market

Investors will tend to need a more defensive strategy during bear markets, making use of alternative investing approaches as well as embracing the higher volatility to find what can be a period offering the best long-term investing opportunities.

However, trading during a bear market can also be extremely risky. Note that all investing and trading contains risk. The techniques provided below shouldn't be used as a substitute for your own research.

We encourage you to always conduct your own due diligence before trading or investing, such as looking at fundamental and technical analysis, latest news and analyst commentary. Remember that your decision to trade or invest should depend on your risk tolerance, expertise in the market, portfolio size and goals. Always have a trading or investing strategy in place, making use of risk management tools.

Trend following

Trend followers typically buy assets when they are rising in price and sell them when they are falling. In a rising price environment, a trend follower is a bull trader, and in a falling price environment they are a bear trader.

This strategy can be successful in a bear market, when prices are falling across the board, especially when other investors are fighting the trend, still trying to buy.

By following trends, traders can take a more systematic approach, often with the help of technical analysis and trend following indicators like moving averages (MA). Bear traders can use short-selling to profit from the falling prices.

Of course, trend following is not without its risks. If a trader sells an asset when it is already undervalued, they may end up losing money even if the price rises.

Value investing

It is during a bear market that investors can often find the best long-term opportunities because prices are falling to more reasonable valuations. This can help investors to 'buy low and sell high'.

Value investors look for stocks that are undervalued by the market and are typically willing to hold on to them for a long period of time, even when the market is in a downturn.

In a bear market, many stocks will fall in value and it can be hard to find those that are truly undervalued. Value investors need to be patient and have a long-term horizon in mind to succeed in a bear market.

Alternative investments

If stock markets are not performing well and there are few good buying opportunities, it may be reasonable to diversify your portfolio into alternative investments. While there is no guaranteed way to avoid losses during a bear market, alternative investments can help to mitigate them.

There are a variety of alternative investments available, including forex trading, precious metals like gold and silver, hedge funds, private equity and real estate. Each has its own risks and rewards, so it's important to do your research before investing.

FAQs

Is a bull or bear market better?

Is it better to buy stocks in a bull or bear market?

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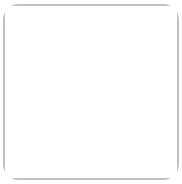

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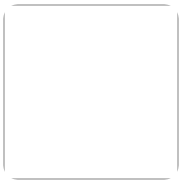

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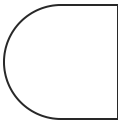

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