Stock Market Basics Series

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THE BULL AND THE BEAR

In stock market related articles and news, we often hear the phrases like bull market and bear market. Many people interested in stock investing must be wondering what these phrases exactly mean. For becoming successful in stock trading, being aware of bull market vs bear market and all technical things related to the markets is quite essential. The content given in the next few paragraphs will help in knowing the comparison between bull market and bear market clearly.

Where did the bull and bear market get their names?

First of all, let's remember that bears are sluggish and bulls spirited and burly. The terms are used to describe general actions and attitudes, or sentiment, either of an individual (bear and bull) or the market. A bear market refers to a decline in prices, usually for a period of a few months, in a single security or asset, group of securities or the securities market as a whole. A bull market is when prices are rising.

The actual origins of these expressions are unclear. Here are two of the most frequent explanations given:

1. The terms "bear" and "bull" are thought to derive from the way in which each animal attacks its opponents. That is, a bull will thrust its horns up into the air, while a bear will swipe down. These actions were then related metaphorically to the movement of a market: if the trend was up, it was considered a bull market; if the trend was down, it was a bear market.

2. Historically, the middlemen in the sale of bearskins would sell skins they had yet to receive. As such, they would speculate on the future purchase price of these skins from the trappers, hoping they would drop. The trappers would profit from a spread - the difference between the cost price and the selling price. These middlemen became known as "bears", short for bearskin jobbers, and the term stuck for describing a

downturn in the market. Conversely, because bears and bulls were widely considered to be opposites due to the once-popular blood sport of bull-and-bear fights, the term bull stands as the opposite of bears. (Investopedia)

What are bull and bear markets?

A bull market is one in which prices of a certain group of securities are rising or are expected to rise. It is a prolonged period where the investment prices rise faster than their historical average. In such times, investors have faith that the market will continue to rise in the long term. Bull markets can happen as a result of economic recovery, an economic boom, or investor psychology.

A bear market is an opposite of bull market; it is characterized by falling prices and an expectation that they will continue falling. When the market is bearish, it leads to a slow down of the economy together with a rise in unemployment and inflation. In both the cases, people invest. Those who invest in a rising market and think that it will continue to be so are called bullish investors while those who trade in falling markets and think that it will continue to be so are known as bearish players.

Though bull and bear market conditions are driven by the direction of stock prices, there are some other associated characteristics of these markets. However, one should remember that the characteristics described in the following paragraphs are not the fixed rules for typifying either bull or bear market and give just a general idea to identify the market. In a bull market there is a low supply of securities and a high demand for the same. This is because few are willing to sell due to the rising trend of the market, expecting it to grow further. As a result, share prices soar high, as investors compete to buy the available equity. In contrast a bear market has more sellers and lesser number of buyers. Bull and bear markets are very much impacted by the investor's psychology. It is the tendency of the investor to buy when the market has a rising trend, hoping to get more profit out of it. This leads to high prices and continuation of the trend. When the market has falling prices, it shakes the investor's confidence and he begins to move his money out of equities and starts selling out. This leads to further falling of prices. As for the economy, stock market and the economy are strongly connected. The businesses whose stocks are trading on the exchanges are the participants of the greater economy. A bear market is associated with a weak economy as most businesses are unable to record huge profits, because consumers are not spending nearly enough-this decline in profits, of course, directly affects the way the market evaluates stocks. In a bull market, the reverse occurs as people have more money to spend and are willing to spend it, which, in turn, drives and strengthens the economy. To qualify as a bull or bear market it is supposed to be moving in its direction for a sustained period. Small, short term movements do not qualify. Bull and bear markets signify long movements of significant proportion.

There are several well-known bull and bear markets in American history. The longest duration bull market was the one which began in 1991 and ended in 2000. The best known bear market was of course the Great Depression. The Dow Jones Industrial average lost roughly 90 percent of its value during the first three years of this period.

There are no set rules for investing in the bull or the bear markets, however in a bull market the best thing to do is to take advantage of the rising prices and buy securities early, watch as the prices rise and when they reach their peak sell it .Though it's not possible to predict with certainty when the prices will reach their peak or bottom, investors are more likely to make profits in a bull market. This is because on the whole investors have a tendency to believe that the market will rise. As prices are on rise, any losses should be minor and temporary. Portfolios with larger percentage of stock can work well when the market is on rise.

Bear markets are complete opposite of the bull markets. The chances of losses are greater here as prices are continuously falling and the end is not in sight. Investing in bear markets can involve many different strategies. This includes, investing in less volatile securities such as fixed-income bonds or money market securities. Another strategy investors employ is to wait for the downward prices to reverse themselves. Some investors also turn to "defensive stocks" whose performances are only minimally affected by changing trends in the market. The food industry, utilities, debt collection and telecommunications are popular defensive stocks. However, here also there is no guarantee that the defensive stocks will perform well during any market period. Bear markets also characterized by short selling. Short selling occurs when the investor believes that prices of the stocks are going to decline, or he believes the stocks are overvalued or because there is some fundamental problem with the company.

To conclude, there is no sure method to predict bull or bear markets. Investing in both involves risks, and so investors should invest their money based on the quality of their investments. At the same time it is important to have an understanding of the markets and educating yourself to the trends. Since both the bull and bear markets will have a large influence over the investments. There are many investment methods which the investment professionals take advantage of, such as dollar cost averaging, selling short and diversification. Understanding these well founded strategies will surely improve the chances to perform better in both the markets. (Essorment)

How to Gauge Market Changes

The key determinant of whether the market is bull or bear is the long-term trend, not just the market's knee-jerk reaction to a particular event. Small movements only represent a short-term trend or a market correction. Of course, the length of the time period that you are viewing will determine whether you see a bull or bear market.

For instance, the last two weeks could have shown the market to be bullish while the last two years may have displayed a bearish tendency. Thus, most agree that a decided reversal in the market should be ascertained by the degree of the change: if multiple indexes have changed by at least 15-20%, investors can be quite certain the market has taken a different direction. If the new trend does continue, it is because investors are perceiving a changes in both market and economic conditions and are thus making decisions accordingly.

Not all long movements in the market can be characterized as bull or bear. Sometimes a market may go through a period of stagnation as it tries to find direction. In this case, a series of up and downward movements would actually cancel-out gains and losses resulting in a flat market trend, otherwise known as a sideways market. It is this type of market that is actually the most difficult market to make money in.

It is never wise to be a "perma-bull" or a "perma-bear" as you are going to be wrong at some point, and not without a cost to your portfolio. Instead, the most successful investing practice is to remove one's bias and look at incoming data and then take a weight-of-the-evidence approach to the markets and economy.

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