RevShark's Essential Guide To Navigating A Challenging Market

Everything I've learned in over 30 years as a trader when it comes to dealing with a downtrending market.

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Navigating the Financial Seas

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Introduction

The Inevitability Of Market Cycles

There are very few things that we can be certain about in life, and even fewer when it comes to navigating the stock market. In fact, there are just two things that every investor can use to frame their thinking about (and approach to) the market which can help avoid mistakes and remain focused on those things that matter the most.

The first great certainty is that the market moves in cycles. There will always be both bull and bear phases, and while that's pretty obvious to even the newest of investors, I'm never surprised at how challenging it can be at times to appreciate that fact. At the height of a bull cycle, it can seem like the market will never go down again. Those periods of strength can last longer than would ever seem reasonable and the market can continue to chug higher even in the face of a plethora of preferably logical reasons it shouldn't. Traders can (falsely) come to think that they've got "this whole market thing figured out", and that's when discipline slips, and months of progress end up being lost in a matter of days even in a brief market correction.

Of course, those challenges don't hold a candle to a bear cycle. Every bear market plays out differently, but they all share some common characteristics, as stocks are sold without merit for fundamentals or valuation, countertrend bounces get sold just as it begins to seem like the worst might be over, and there are few (if any places to hide). I've often said through the years that bad markets don't scare you out, they wear you out, and it's that seemingly relentless nature of a bear market that can make traders throw in the proverbial towel. The 2000 Tech Bubble bear market pushed many traders out of the market, and many never returned.

The key, however, is to keep in mind the fact that all cycles come to an end. Just as bull markets always end, so too do bear markets.

And it’s that essential characteristic of the market (which I feel offers the greatest egalitarian opportunity for anyone to build real wealth) that makes it so potentially lucrative.

The second great certainty is that no one has been ever been (or will ever be) able to predict the market's tops or bottoms… but that won’t stop them from trying. The inevitability of market cycles makes it nearly irresistible to “call” significant turns before they happen. Some folks might even get it right from time to time… but make no mistake… a successful top or bottom call is nothing more than luck.

In fact, one favorite tactic of market pundits is to “ring the bell” and call a top at every new high. They’ll be wrong dozens of times as the market continues to grind higher, but they’ll eventually “get it right” and make hay from that “big call” for years to come. And it works in reverse as well. In a bear market, those same pundits will declare a bottom at every new low.

“Make no mistake… a successful top or bottom call is nothing more than luck.

While it may be empowering to embrace the idea that we (or someone we read or listen to) can know ahead of time what the market is going to do next, the problem is twofold: not only are predictions completely useless, but they tend to be extremely costly as well.

If we want to navigate the market effectively, then we need to concurrently embrace both of these great certainties. We should always be mindful that both bull and bear markets will eventually end, but we should also acknowledge that we can't predict exactly when that will occur. They are conflicting issues and the only way to deal with both is to always remind ourselves of these facts… especially in the depths of a bear market.

This ebook is meant to be a guide for every type of investor as they deal with a difficult market: On the pages that follow, I'll share actionable ideas around developing a strategy (as well as specific steps to take) when dealing with a bear market, how to maintain the correct mindset and stay focused on the opportunities that are being formed, methods for producing gains, and steps to take to recover from a market setback.

They say everyone is a genius in a bull market, but real traders are forged in bear markets. Their success is the direct result of being persistent (and continuing to slog away when the action sours) and cultivating a positive mindset. Staying positive doesn't mean foolishly thinking that the worst is over every time the market bounces. It means remaining confident that if you continue doing the research and chart work necessary to succeed in the market, the positive results will eventually come back. I may not know when a bear market will end, but I am confident that opportunities to make substantial money will eventually develop, and I will benefit from them.

If the market were easy, then there would never be an opportunity to profit. You can become rich from trading only because it is hard and requires discipline and hard work. Luck will happen from time to time, but the real gains only come if you are willing to preserve over a long period of time.

What keeps me going when things are rough is that I am absolutely confident that the market is going to shift and offer us some fantastic opportunities again. I’ve been through numerous cycles over the years, and it is glorious when the cycle starts to improve, and a new uptrend develops. It will happen.

Chapter 1

Embrace The Suck

During Navy SEAL training, instructors often admonish their trainees to "Embrace The Suck!" At its core, embracing the suck acknowledges that pain and suffering are inevitable aspects of life (and in trading!) but it's up to us how we react. There will always be outside forces that we can't control, but what you can control is actively looking for the opportunities that arise from adverse conditions. Accepting the fact that bear markets do indeed suck but are also a necessary part of a healthy market can help put traders in a mental space where they can understand that a difficult market isn't a personal attack, it won't last forever, and (as strange as it may sound) is ultimately a positive for them.

The reality is that downdrafts are a boon to opportunistic traders with the right mindset. New opportunities become increasingly sparse when the market runs straight up. The truth is that bear markets create the conditions where traders can subsequently make significant money in the market. When the action is at its worst, you can be confident that the potential opportunities are multiplying. The important thing is to have done the prep work and to be mentally prepared to act when the pricing action has improved.

Those who suffer the most in a difficult market with normal ups and downs are the perma-bulls who think that markets should never experience any significant downside. If they are true buy-and-holders, then they simply ignore the market gyrations, but a large number of perma-bulls suffer tremendous anxiety and financial losses because they’re simply incapable of appreciating the necessity of a two-way market.

The key point is that bear markets feel very different for those who are prepared to react by taking defensive action as the price action deteriorates. Too many market players feel like they have some special insight into the market or have such a deep understanding of why a certain company shouldn’t do anything but go higher that they end up fighting the downside action and ignore the fact that their stocks are breaching key support levels. However, those who defer to the price action above all else, accept that near-term losses are part-and-parcel of trading, and honor their stop levels will have a totally different attitude about the market as you protect capital and prepare for when the action will inevitably improve.

It’s impossible to know how long bear markets will last and there’s no use in trying to perfectly time “the bottom”. Along the way, the increased volatility around bear markets can create unique opportunities to profit for those who can tighten up their timeframes and become exceedingly disciplined with position management (which I will discuss in a subsequent chapter) and will ultimately offer up fantastic entries for longer-term position trades.

Those who are willing to shift their mindset and “embrace the suck” will have a very different (and productive) outlook during corrections and bear markets. Learn to love the misery. Don’t just tolerate it and try to survive; celebrate it, make it part of your existence, and use it to drive yourself even harder.

> “When the action is at its worst, you can be confident that the potential opportunities are multiplying.

Chapter 3

A 10-Point Plan For Every Bear Market

There are many approaches to dealing with a difficult market, and none is inherently better than another. The biggest reason that so many people suffer so much during corrections and bear markets is that they simply haven't spent the time planning out how they will respond once it's clear that the pricing action has shifted and a clear downtrend has developed. Unfortunately, without a plan, investors are prone to react emotionally and make suboptimal decisions.

Accordingly, the very first step when thinking about the approach you'll take in a downtrend is to understand your personal style. Are you a very short-term trader who's content knocking out small gains from several day trades to meet your daily target? Are you a momentum trader looking to ride a trend as long as you can? Do you prefer to build longer-term positions in stocks with strong fundamentals that may not have been "discovered" yet?

There is a myriad of styles that investors can adopt and then adapt as they hone their craft, and it is important to understand why your approach works amid favorable conditions… and under what sort of circumstances that your approach will suffer. For example, I use a combination of stock-picking, momentum, and technical trading, and that approach will stumble in rotational action and when the market is heavily influenced by macro flows.

As a result, my default approach in a tough market is as follows:

Do Something

The biggest mistake that investors make in a bear market is to freeze in their tracks. Given the speed with which the market tends to bounce back in uptrends (and how often traders get left leaving the wrong direction when playing any sort of defense), it's hard to justify doing much selling as the action starts to sour. However, when things begin to turn, losses begin to build up fast. It's at that point that we start reasoning with ourselves, thinking that market will certainly realize that the stocks in our portfolios should be immune to the selling. So we just sit tight, and by the time the losses really get out of hand, we start thinking that it's just too late to sell. The fact, however, is that it's never too late to sell… particularly since brokers eliminated commissions effectively across the board. Just because a sale might be ill-timed doesn't mean it can't be repurchased if it starts acting better. Traders have to break the mindset of being afraid to take stops and sell at the "wrong" time. Making a sacrifice to the market gods will break the cycle of inertia and give you some mental bandwidth to start looking at the market differently.

Be Prepared For Oversold Bounces

Volatility is elevated in corrections and bear markets. The downdrafts are steep, but so too are the counter-trend bounces. The biggest short-term upside moves always occur in a downtrending market, and those bounces can offer some quick opportunities to profit. Just make sure to keep timeframes short and stops tight.

Do Your Chart Work

Even in the worst bear markets, there are always a few individual names that will enjoy some strong short-term momentum. Reviewing thousands of charts each day helps me identify individual names that can offer some quick trades. Always default to point 2 above, however, and be quick to take profits if you have them and quicker to take stops if the trade doesn’t go your way. Also, material improvement in a number of individual names is often a hint that the broader price action may start to improve. And that insight can only come from religiously going through the charts.

Be Ruthless

No matter what the broader market might be doing at any given time, some trades will work, and some won’t. That’s just the nature of trading. Bull market, however, tend to be more “forgiving” of lapses in discipline. Stops are an important part of any trading strategy regardless of the broader market profile, but individual names tend to bounce back faster in uptrending markets. Unfortunately, that’s not the case in a downtrend, and no matter what opinion you may have about a company and its prospects, there’s just no telling how far a stock can fall after it breaches key technical support levels.

Keep Cash Levels High

Cash is, as they say, “king”... especially in a downtrend. One of the biggest advantages that an individual investor has always had over large funds and money managers is the ability to hit the sell button and move to a large cash position quickly, and that advantage has only grown since most brokers cut commissions on stock trades to zero in late 2019. Yet, one of the biggest myths that the financial advice industry has propagated over the years is the notion that if you ever sell anything, then you'll "miss out" on the market's best days. Unfortunately, the illustrations they use are misleading and this is just one of many scare tactics that the financial product sales industry uses to prevent assets from going elsewhere. Conversely, even the simplest of money management techniques can help protect investors from large drawdowns and in a position where they can keep their accounts close to highs.

Focus On Individual Stocks, Not The Indices

As the saying goes, it's a "market of stocks, not a stock market". Yet, despite that fundamental fact, the media focuses almost exclusively on the Dow… and sometimes the other two "senior" indices… and the truth is that, the truth about what is really happening will only be evident in the charts of individual stocks. For instance, even before the dot-com bubble burst in 2000, money began to flee many of the darling names from that time, and in 2007, while the major indices were hitting fresh highs, financials were already breaking down en masse well before the media began acknowledging the reality of the unfolding crisis. The key takeaway here is that, if you really want to know what is going on in the "market", then you'd better be concentrating on the action in individual charts rather than whatever it is that the indices are doing.

Forget “Fundamentals”

Bear markets are often characterized as “throwing the baby out with the bath water”, as investors will be so anxious to reduce their exposure amid rapidly declining economic and market conditions that they’ll purge their portfolios of anything that might be deemed risky or cyclical. That dynamic is only exacerbated by algorithmic trading programs that will sell everything in a sector regardless of merit. That’s why it’s so important to stay disciplined and not become too attached to any particular name regardless of how compelling its fundamentals or prospects might be. Bull markets reward good stock-picking and more often than not, a strong market will often bail us out of questionable decisions, but bear markets reward discipline and patience and will punish anyone who thinks they know better.

Hunt For Relative Strength

As a bear market begins to enter its later stages, select industries (and even entire sectors) will start showing relative strength. The key is to look for big moves off lows followed by near-term consolidation and then upside follow-through. It’s yet another reason why there’s no substitute for consistently doing your chart work. The caveat, of course, is that any relative strength might not last, so it’s vital to stay disciplined, but just as bearish action in select sectors is often the tipoff that bull markets are winding down, bullish action in isolated groups of stocks is usually the first hint of a possible trend change.

Better Late Than Early

Calling major turning points is a stock market pundit's bread and butter. Pretending to have some special insight into what the market will do next might sell newsletters, but the only way to do it effectively is to call every new low "The Low". Eventually, the pundit will get it right and simply block anyone on social media who dares to point out how many times they got it wrong before they eventually got it right. The far better approach is to remain patient, wait for some strength, and then use the most recent low as a stop. You might not catch "The Low", but you'll reduce your risk exponentially by waiting for bottoming patterns to develop.

Stay Optimistic

Bear markets don't just take a financial toll… they take an emotional toll as well. Dealing with poor action over many months is just hard, and it's easy to feel like it will never end. That's the biggest reason that newer traders simply give up… and it's hard not to blame them… particularly since there's often euphoric action ahead of major tops (think internet stocks in the late 90s and meme stocks in 2020) which is followed by the inevitable rug pull. However, as I'll discuss later on, real traders are born in bear markets, and if there's one thing I know for certain, the cycle will shift once again, and that's where the real opportunity awaits.

Chapter 3

The Score Takes Care Of Itself

One area that's particularly worthy of study by individual investors looking to improve the mental side of their craft is sports psychology. Successful coaches have written dozens of books with lessons and insights around focusing on the fundamentals that foster excellence on an individual level which are directly applicable to trading. One that stands out, in particular, is Bill Walsh's "The Score Takes Care Of Itself".

In it, Coach Walsh argues that there are several uncontrollable factors, such as weather and injury, that will often influence the ultimate outcome of a game, and there's nothing we can do to control them. However, what we can control is our own preparation and execution, and when we focus on doing those things to the best of our ability, then the score will take care of itself.

While some coaches, such as Nick Saban, are sometimes criticized for running up the score in a lopsided game, Coach Saban and others aren't focused on the scoreboard but are instead focused on the proper execution of a game plan. Win or lose, the most important thing is executing on every single play until the end of the game.

This lesson here for traders is all too obvious. There are countless factors influencing the market action that are completely out of our control. No matter how smart or insightful you are, there's no way you can control macroeconomic conditions, algorithmic trading, international conflict, or any of the other myriad of things that influence the supply and demand of any stock that you are trading.

Yet, the truth is that both market "gurus" and the financial media are so focused on trying to predict what the market is going to do next that it's all too easy for investors to think they need to be doing the same thing. Unfortunately, execution is completely ignored, and it's in bear markets that disciplined execution becomes absolutely critical.

In the depths of downtrends, it's easy to feel like the pressure will never relent and you'll never be able to make money in the market. It's hard not to look at the scoreboard, which tells us we are losing, and think about throwing in the proverbial towel. However, if there's one thing I know for certain, it's that if I keep on grinding away every day and continue to execute on my trades, the score will take care of itself.

> "The one thing we can control is our own preparation and execution, and when we focus on doing those things to the best of our ability, then the score will take care of itself.

Chapter 4

Shorting Stocks In A Bear Market

The trend is your friend is a treasured mantra for individual investors, and rightly so. Fighting a strong trend is a tough way to make money, yet all too often, I see folks suffer mightily as they try to short stocks amid a relentless uptrend or buy into the teeth of a sharp decline. In a bear market, meanwhile, it’s painfully obvious that the best way to outperform is to bet on more downside by using any number of inverse ETFs or by shorting individual stocks. However, it’s important to understand that trading on the short-side requires a much different approach.

Bear market trading is simply not the inverse of trading on the long side in a bull market. Look at any chart from prior bear markets, and you’ll notice that they are characterized by steep declines and rip-you-face-off counter-trend bounces. Even in the depths of an ugly bear market, an abrupt counter-trend move can destroy any well-planned short, and it’s this primary feature that makes it so tricky to be successful on the short-side.

During bull markets, I continually pound the table about the importance of taking a reactive approach to trading rather than trying to anticipate when a turn will occur. However, because of the extreme volatility in bear markets, a more anticipatory approach is needed if you want to have success by shorting stocks. If you miss the early stages of an uptrend, there is likely plenty of time to still participate, but if you miss the early stages of a fresh downside move, it is often too late to do much.

In general, I prefer a more incremental approach to building and trading positions, but this approach becomes essential with shorts. Initiating positions with smaller size gives you some wiggle room if you’re on the wrong side of the trade. Holding a short-side trade amid a counter-trend move can be mentally grueling, but it’s usually a good idea to start pressing as the bulls start to gain confidence.

It’s also important to make sure you are keeping timeframes short, especially as the gloom of a bear market begins to build again. As sentiment becomes increasingly sour, traders will look to create short-squeezes in heavily-shorted names, which only underscores the importance of having a more anticipatory mindset. In other words, don’t ever get comfortable and keep those short positions on your screens at all times.

Another way individual investors can take advantage of downside action is by using inverse ETFs. As I’ve noted previously, downside action tends to be much more correlated than during uptrends, as stocks are often dumped en masse regardless of merit. As a result, the inverse ETFs can take advantage of that fact, even if it’s simply to hedge long positions in a portfolio. Moreover, inverse ETFs can be used in retirement accounts, which often don’t allow investors to short stocks.

For most folks, simply raising cash and waiting for the action to improve is a great strategy for dealing with a bear market, but adding in some short positions can help enhance returns if done properly. Ultimately, though, the most important thing to keep in mind at all times is that shorting isn’t just the reverse of going long. It requires a much different mindset and trading approach in order to be successful.

Chapter 5

Bottom-Fishing For Countertrend Moves

If shorting stocks isn't your idea of a good time, then another way to grind out some profitable trades in a bear market is by bottom-fishing downtrending names is a viable alternative.

Now, bottom-fishing doesn't mean buying stocks in the midst of a steep decline (no matter how oversold they may be) and hoping that your timing is so spot on that you get an immediate reversal. A lot of times, traders will fall for this trap by thinking that the stock they're trying to bottom-tick is an exceptional value at current levels and that the market is simply mispricing this incredible bargain.

The temptation is that if you don't get in at these lower prices, you'll miss out on a opportunity of a lifetime, but it's important to remember that stocks are not consumer goods. There's no telling if a stock is actually mispriced or if there are some very real problems (either internal or external, or both!) that haven't come to light yet.

As a result, it's important to remember that bottom-fishing is a trading tactic and not a way to find an antique Rolex at a garage sale. The key to successful bottom-fishing, then, is to wait for an initial bounce after a steep decline, set the low of the most recent red bar as as your stop, and then be ready to sell part of the position into any subsequent strength. From there you can either set a trailing stop to protect gains and continue to peel off remaining shares into any short-term follow-through. A great example of this strategy can be illustrated by looking at Cathie Wood's ARKK ETF, which offered plenty of bottom-fishing opportunities as it led to the downside even while the indices were hitting fresh highs ahead of the onset of the 2022 bear market.

The most important thing, though, is to execute properly and (by all means!) stick to your guns with that initial stop. As is always the case, these trades won't work out all the time, but if you manage your risk properly, it can be an effective strategy.

Chapter 6

Recovering from A Market Setback And Getting Your Portfolio Back To Highs

Spend enough time in the market, and you will inevitably find yourself having to deal with a bear market. The first thing you will notice, of course, is that the slow and steady gains that accumulate during an uptrend can start to vanish at an alarming rate. The old saying about the met taking the stairs on the way up and the elevator on the down certainly rings true.

Even veteran traders who have seen countless corrections are often caught lean the wrong when the inevitable occurs and will kick themselves for not seeing what should have been obvious to a fifth grader. Investors should always have a goal of keeping accounts as close to highs as possible and to limit drawdowns, but any honest market player will admit to giving back too much when a turn occurs.But the truth of the matter is that the market gods will condition us to ignore quick dips in a strong uptrend and then come to yank the rug out from under our feet!

Finding that you have to regain lost ground after a correction (or even as a bear market continues to unfold) isn’t an efficient endeavor, but it’s something we all have to do more often than we like.

The first step in recovering from a market beat down is to be very careful about declaring that “The Bottom” is in. As is the case with a significant top, bottoms are only identifiable well after they occur. As such, if you spend too much energy trying to peg an exact low, odds are that you’ll end up incurring additional losses. Nothing wipes out more traders than averaging down as they try to catch “The Bottom”.

As detailed in earlier chapters, the most important thing to do after it's evident that a series of lower highs and lower lows has taken shape is to obey the first rule of holes, which is that when you find yourself in one, stop digging.

Regardless of whether the market is in a run-of-the-mill correction or a full-fledged bear market, once individual charts begin to develop attractive patterns, you can use the following steps as your guide to getting your account back to highs:

Stop Beating Yourself Up

The most important thing to do when recovering from a market thumping is to rid yourself of any mental baggage and regain your objectivity. It's natural to start doubting your judgement after suffering losses and giving back a sizable chunk of your prior gains. It's hard to regain the confidence to start taking on risk again, but the best way to do that is by reducing the size of your trades and shortening your timeframes. It won't be long before you're back in the groove once again.

Mark to Market

The next step to take is to treat each position in your portfolio as if you just bought it. Forget any unrealized losses you have. There's no changing what happened in the past, but you are in control of your decision-making as you move forward. What happens next is the only thing that matters. Look at every position as if you just bought it and figure out where you should set stops and/or look to add.

Make a Decision

Early in my career as a trader, I found that one of the best ways to clear my mind after a setback was to simply sell everything in my portfolio and start from scratch. Starting fresh with a clean slate is emotionally freeing and can help us gain a fresh perspective on the market. As I continued to hone my craft, however, I quickly realized that selling into the teeth of a decline isn’t always the optimal choice. Accordingly, I began to force myself to decide to either sell a position or add to it. There was no middle ground. Either dump it or go big. The binary nature of that decision tree forces you to evaluate each stock in the context of the current market action, and will help you become a better trader. Always remember, though, that there is no shame in changing your mind at any point and either buying back a stock you sold or dumping one you added to (because you’re constantly marking to market, being ruthless, and staying disciplined, right?). ☺

Move Incrementally

Oftentimes, you will feel pressured to try and regain lost ground as quickly as possible by being more aggressive than you normally are. After all, the downside came at you quickly, and it’s natural to want to get back to even just as quickly. Unfortunately, that’s often a great way to dig an even deeper hole. Instead, accept the fact that rebuilding your portfolio will take time. Successful trading is a daily slog. Persistence and patience are the keys to getting back to highs.

Look for New Ideas

There’s no question that bear markets are painful, but it’s always important to remember that they create the next set of great market opportunities. Bear markets inflict pain without prejudice, and just about everything gets sold regardless of merit. In the midst of a steep decline, it will often feel like the pressure will never relent, but it will, and at some point, market players will start sorting through the wreckage, looking for names that have been unduly punished. It’s at this point that stock-picking becomes tantamount, and traders that have done the work of identifying those names as they’ve fallen will be rewarded. The most important thing to keep in mind is that the nex crop of leaders will be different from the previous group of market leaders, so it’s important to continually look for emerging themes in different areas.

Don’t Forget Your Discipline

As favorable patterns start to emerge and stocks start to react favorably to good news (because in bear markets, good news is often the catalyst for the next wave of selling), you’ll be able to start putting some capital back to work, but the first stabs at improvement don’t always take. It’s important to be exceedingly disciplined and to limit additional drawdowns. It will often take several attempts for a stock to see sustained follow-through. Don’t be afraid to take small losses if the trade doesn’t work. Big moves will come at some point. You have to be in position to capitalize when they happen, and that means you have to be ready for some false starts.

Adjust Your Approach As The Recovery Takes Shape

As the broader market starts to stablize, those initial bottom-fish and counter-trend trades will give way to longer-term position trades. Rather than looking to flip into strength, you can start setting trailing stops to both protect gains and give your winners room to run. Riding newly established uptrends is what will help you get your account back to highs.

No one is going to argue that taking losses in market downtrend isn't painful, but it's inevitable. However, if you continue to grind day in and day out, you can minimize the damage and have both your mind and account prepared to take advantage of the inevitable opportunities that tough markets create. Getting your account back to highs takes hard work and patience, but the market will give you plenty of chances to start making progress once again.

Chapter 7

Real Traders Are Born In Bear Markets

A rising tide, as the saying goes, lifts all boats, and the same is true for bull markets. A strong market that's extended and hitting fresh highs on a daily basis provides great cover for poor discipline and bad decisions. Everyone is a great trader in a bull market, and chasing the hottest names is often a sound strategy for racking up solid gains.

Seasoned traders understand that that doing well in a strong market has little to do with their tremendous skills and more to do with forces that are beyond their control… such as fiscal stimulus from Congress or monetary stimulus from the Fed. Extremely strong markets, however, will often attract a new crop of traders who will enjoy immediate success and will often think that their success is the result of their stunning acumen.

Of course, extreme strength and parabolic moves in groups of stocks (or other assets) that ar dubious at best are often hints that the party may be coming to an end. It's when that happens that real traders are born. It takes skill to navigate a downtrend. It's when the market is at its worst that traders can set themselves up to really outperform over the long haul by employing all the strategies and tactics I've been discussing over the past several chapters. The best money managers will almost always lag in strong markets, but will be well ahead of the pack after a bear market has run its course.

The benefits of disciplined trading becomes painfully obvious in a downtrend, and these are the keys to using a tough market to become a great trader.

Be Patient

One of the biggest mistakes that traders make in a downtrend (after not setting or honoring stops) is to be in a rush to buy in an attempt to catch a bottom. I've seen many traders try to average down into a downtrending stock, watch as losses mount, and then sell in disgust at the exact wrong time. Unfortunately, they will often repeat the process and eventually wipe themselves out. The best way to combat that tendency and cultivate patience is to reduce size, keep tight stops, and flip into strength when you can.

Keep Your Powder Dry

Our view of the market at any given stage is greatly influenced by how much buying power we have. Just as a large cash position in an extended market is miserable, so too is being fully invested in the midst of a downtrend. If you have a large cash position in a bear market, then you tend to see opportunities rather than losses. The good news is that no matter what, you have the power to change your perspective at any time by hitting the sell button. It's hard to admit when we're wrong, and we feel the pain of a loss more acutely than we feel the joy of a win. However, the faster we can put that behind us, the faster that we can regain our flexibility and change our perspective.

Research

A poor market is a great time to dedicate extra time to really dig deep for names that you might not yet be familiar with but that have stories and fundamentals that could pay off when conditions improve. Take time to understand their primary drivers and metrics and if there might be any potential catalysts on the horizon that might attract attention. The more familiar you are with particular names, the more confidence you'll be when (if) the stock begins to recover. Just don't get too caught up in any particular story or think you know better than what the pricing action is telling you.

Get Gritty

I have often said that bad markets don't scare you out, they wear you out. Dealing with a tough market day after day can really grind you down if you let it. But, showing up to work every day and sticking with your process is your ticket to becoming a great trader. Once you enter a trade, don't hesitate to take a small loss and try again. At some point, you'll start having a greater win percentage, but there's no way to know when that will happen. It takes grit and persistence, but I know that I will always find good trades in any market by slogging away every day.

Have A Clear Plan

In any market, it's a good idea to gameplan how you want to manage a trade as it develops. Where does it make sense to start taking gains if things go your way? Where is your line in the sand to set stops? What's the maximum dollar amount you're willing to lose on any given trade? Are there levels to watch as add points on pullback? Remember, though, it's smart to have a plan and to execute on it, but it's also important to keep that plan flexible as the action develops.

Bear markets are shocking for every investor, but particularly so for newer traders, many of whom may have enjoyed some great success amid overly exuberant conditions as the prior bull market began to wind down. Many will decide that their time and attention are better spent elsewhere, and there's absolutely nothing wrong with that. But for those who have been bitten by the trading bug, it's important to understand that real long-term outperformance is only possible by learning to effective navigate bear markets.

Thank You for Reading!

I hope you enjoyed this eBook. I have a deep dislike for books that take 200 pages to say what could have been said in 20, which is why I've tried to distill down the most important lessons about navigating tough markets that I've learned in my over three decades as a trader. I'd love to hear any feedback you may have.

Trading is often a solitary venture, but every trader's experience is enhanced by a supportive community of likeminded individual investors you can battle the market beast with on a daily basis and have access to a steady flow of actionable ideas. If that's sounds like something you might like to check out, then I invite you to take a free 30-day trial of my Shark Investing Pro service.

Any, lastly, if you're interested in learning more about our portfolio management services, we'd love to hear from you at hello@hammerheadfin.com.

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