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Beware of bear market honey trap

Chris Dastoor 15 April 2020

Investors need to avoid being lured into the bear market honey trap because of minor market rises the last few weeks, according to sharemarket strategist and market analyst, Rod North.

Government stimulus would help the economy, but it would not be enough to prevent a massive slump in company earnings in the months ahead.

“The Aussie sharemarket is in the middle of a brief bear market rally mirroring the gains made back in October 2008 before the global financial crisis (GFC) pulled shares down a further 25% before we finally reached the bottom of the market in March 2009,” North said.

“In our case, and in the context of today, expect that bottom and buy signal to be reached sometime by year end 2020 or early 2021.

“The Downward pressure from low inflation and a near-term recession stand to make the Coronavirus virus induced profit slump deeper than past declines.”

Although the market may have recently returned to a bull market, North said these ‘dead cat’ bounces were a precursor to much deeper lows before a COVID-19 recession fully kicks in.

But the good news is in the months ahead, the best buying opportunity since March 2009 would arrive.

“The recent gains we have just witnessed over the past week followed nearly two months of sharp selling amid fears of a coronavirus fuelled recession. That market trajectory and pattern closely matches past trends,” North said.

“Many investors need to keep their investment fuel dry and in the tank for future, better selective buying opportunities in inevitable dips in the market ahead.

“At the moment in the cycle, the danger is, many novice or inexperienced investors will be poised to re-enter the market only to be crushed as history suggests is normal.”

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