Brainy's Articles on

Technical Analysis

How to judge a bear market bottom

In any bear market situation, it can be very advantageous to be able to spot the bottom of the bear market as soon as possible after it has passed, so that we can take advantage of the rising share prices. If we misjudge it, we might end up losing a lot of capital as the market turns down for another leg, so it is very important to be confident with our call and be watchful in case we were wrong.

We could study the GFC of 2007-2009 and look for clues. We could study the market after the infamous crash of 1987. If we look at the coronavirus bear market that unfolded in early 2020 (February/March) we might now be wondering if we saw the bottom of the bear market on 23 March, or if there is more downside in the months ahead.

Whatever the situation, it can be very useful to understand how to judge a bear market bottom, especially utilising our tool bag of technical analysis tools. This article explores the possibilities in this regard, to help us to be smarter traders and investors, and take better care of our available capital, and leveraging off technical analysis.

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In this Article in Brainy's series on technical analysis, TA-6600, "How to judge a bear market bottom", we take a brief look at a number of the technical analysis tools available to us to help us judge a bear market bottom.

Introduction

Take a look at the daily candlestick chart in Figure 1 below of the All Ordinaries index. Note the lows in mid-March towards the right hand end of the chart – was this the lowest low or was there more downside to come?

If you looked at the time scale you would have noticed that this chart shows the 24 percent decline from the all-time market highs of late 2007, until a market low a few months later in March 2008. And many readers will know that this index then went on to fall a lot further for a whole year until March 2009 (it eventually bottomed about 54 percent below the Oct/Nov 2007 highs).

But the point is this – could we have picked that this was not really the bottom of the market? What tools do we have in our technical analysis arsenal to help us arrive at a conclusion with which we could have some confidence?

Figure 1: Bear market bottom or dead cat bounce?

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