

Stock Market Cycles The Key to Your Investing Success

Understanding the cycles of the stock market are essential for protecting your money and making a profit. The cycles in the stock market are called the bull market and the bear market.

Since the establishment of the stock market in 1900, there have been 27 bull markets each with their own bear market. Today we are experiencing the 6th longest and weakest rally in the Dow Jones in its history.

The stock market moves in cycles- both long term and short term. The short term cycles are called cyclical and the long term ones are called secular. Secular markets can last a long time between 10 and 20 years. Cyclical markets occur within secular markets and last between 2 and 3 years total.

Therefore, at any given time the market can be described through its current state of long and short term markets. Understanding which markets we are in and how long we have been in those markets are key to being successful in the stock market.

For example the secular market between the years 1982 and 2000 was a bull market. The Dow Jones Industrial Average increased significantly from a low of 800 to well over 10,000. There were also a number of cyclical bear markets like in 1987.

Knowing the market and your placement within it can insure you are on the right side of the trend - which leads directly to profit. Most investors today have only experienced a secular bear market where the trend is almost always down.

The last secular bear market was between the years of 1966 and 1982. The Dow Jones was at 1000 in 1966 and at a low in 1982 of about 800. The Dow Jones was basically flat for 16 years. During flat times money is made not by the trend in long and short markets but in picking the right stocks.

Most people who made money during this time were people who identified undervalued investments, stocks, and companies that were unexpectedly strong.

The long bull market ended in 2000 and most stock brokers advised that investors should make long term investments. This was a good choice for a bull market but definitely the wrong choice for a bear market. The stock market entered into the secular bear market in 2000 and will last at least another 10 years.

The rally which started in 2003 and continues into today is a cyclical bull market within a long term secular bull market. Investing and holding in long terms stock will not create a profit in this type of market.

Due to the constant bull and bear cycles during a secular bear market you must be extremely careful in what investments you make. You must also be ready to sell at short notice if the market turns against you. The erratic behaviors of stocks in bear secular markets makes it high risk to invest, however high risk means high profit if you understand how to buy and sell in the right markets.

Investing during a secular bull market is much more stable and predictable than secular bear markets. At the end of 2006 a new cyclical bear market is going to start and last at least another 3 years, this means the best and easiest time to invest is on the bear side of the next couple of years.

Source: <http://www.articlecircle.com>

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