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Bull Position vs Bear Position

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What are the financial markets? In fact, they go by many terms including capital markets, Wall Street and even simply *the markets*. Whatever you call them, financial markets are where traders buy and sell assets. These include stocks, bonds, derivatives, foreign exchange and commodities. It’s where companies reduce risks and investors make money. Although some financial markets are very small with little activity, some financial markets including the New York Stock Exchange (NYSE) and the Forex markets trade trillions of dollars of securities daily [1].

Financial markets create an open and regulated system for companies to get large amounts of capital. This is done through the stock and bond markets. Markets also allow these businesses to offset risk. They do this with commodities, foreign exchange future contracts and other derivatives. Since the markets are public, they provide an open and transparent way to set prices on everything traded. They reflect all available knowledge about everything traded. This reduces the cost of getting information, because it's already incorporated into the price. The sheer size of the financial markets provide liquidity. In other words, sellers can unload assets whenever they need to raise cash. The size also reduces the cost of doing business, since companies don't have to go far to find a buyer, or someone willing to sell. Financial market prices may not indicate the true intrinsic value of a stock due to macroeconomic forces like taxes. In addition, the prices of securities are heavily reliant on informational transparency by the issuing company to ensure that efficient and appropriate prices are set by the market.

The terms *bull* and *bear* market are used to describe how stock markets are doing in general – that is, whether they are appreciating or depreciating in value. At the same time, because the market is determined by investors' attitudes, these terms also denote how investors feel about the market and the ensuing trends. Simply put, a bull market refers to a market that is on the rise. It is typified by a sustained increase in market share prices. In such times, investors often have faith that the uptrend will continue over the long term [2]. Typically, in this scenario, the country's economy is strong and employment levels are high. By contrast, a bear market is one that is in decline. Share prices are continuously dropping, resulting in a downward trend that investors believe will continue, which, in turn, perpetuates the downward spiral. During a bear market, the economy will typically slow down and unemployment will rise as companies begin laying off workers [3].

A bear position is a term for a short position in a financial security. A bear position attempts to profit in a market by betting that prices will fall for certain securities. The short seller borrows securities in the hopes that prices will decline. When the price drops, the investor makes a profit on the price change. When the price rises, the investor loses money. There are also numerous alternative ways to initiate bear positions such as buying put options or buying inverse ETFs. A bear position is a trade or investment that is made in the hopes that the security's price will drop. If a short sale moves against the investor or trader, the trader may be exposed to unlimited losses since the price of the security can continue to rise. This is in contrast to a long position where the price of the security can move against the investor only a certain amount; that is, to zero. The use of alternative strategies to initiate a bear position can mitigate some of these risks.

A bull position is a long position in a financial security, such as a stock in the stock market. A bull or long position seeks to profit from rising prices in certain securities. When prices rise, a bull position becomes profitable. If prices fall, the bull position is not profitable. A bull or long position is the most well-known type of position and is what is typically used in *buy and hold* investing. An alternative way to initiate a bull position can include buying call options. A bull position is a trade or investment that is initiated in the hopes that the instrument's price will rise and make a profit. A bull market occurs when prices are rising, and is characterized by investor optimism and confidence that prices will continue to rise [2].

Outperform the market means doing better than the market average. It's also known as beating the market. It happens when your investment portfolio does better than the 7-10 percent annual average the stock market has done over time. For example, an emerging markets fund outperforms the market when it has a higher return than the MSCI index. Market analysts use the term to recommend stocks they think you should buy [4].

Wouldn't it be better to put all your money in bonds and gold in a bear market, and switch to stocks and oil when a bull market begins? Yes, if you knew for sure that was happening. That's called timing the market. It's virtually impossible for even professional traders to do. How do you know when a bear market has begun? It starts with a market correction of a 10 percent decline. In a market crash, this can happen in a day. If you happen to miss it, then what do you do? Sell all your stocks, in the fear the correction turns into a bear market? Then you can be sure the market will go even higher the next day, and you've missed all your gains for the year. Although all bear markets start with a correction, not all corrections turn into bear markets. You can see this for yourself by reviewing the 10 booms and busts since 1980. With diversification, you can gradually shift asset classes over time. You don't have as much at risk if you are wrong. That's the best way to outperform the market.

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