Stock Market Crashes Explained – 4 Types Of Crashes and Strategy

Stock market crashes, as much as we would all love that, are unpredictable. If you wish for safety and security, the only thing you can do is to invest in a sustainable way so that no matter what happens, you do well.

There are 4 types of market crashes:

- A **stock market correction** defined as a fall of more than 10%, usually lasts just 4 months
- A **stock market crash** defined as a decline of more than 20% that usually lasts less than a year
- A **bear market** defined as a decline between 20% and 50% where it takes more than one year to recover, up to 5
- A **stock market collapse** where it takes more than a decade to recover after a bear market

What will happen is not predictable, or, it actually is. I can predict with 100% certainty that within your life investing cycle you will live through all of the above. When will it happen? Well, that is not predictable.

Stock market crash investing strategies

When it comes to strategies, the key is that you see what best fits you. You can buy options and be hedged but as I am writing this in January 2021, it costs 8% of your portfolio to be hedged for the next 12 months through buying a put option on the S&P 500 expiring in January 2022. 8% is a lot to spend to be hedged.

The other way to be hedged is to simply accept that crashes happen and simply keep doing the same all over again; buying good businesses, reinvesting the dividends and adding money if possible, at cheaper prices.

I hope the next stock market does not start this year, but it might as well, you never know. I am prepared for a world where stocks don't go up for 10 or 20 years, I will get my dividends, I will keep accumulating value and in the long-term I'll be better off. That is the best I can do and that is real, long-term, sustainable investing. Everything else is mumbo jumbo. Enjoy the video if you wish to get the entertainment part of the above with historical examples etc.

Stock Market Crash Video