FUNDAMENTALLY SPEAKING

A simple explanation of the finance terms we all hear about but don't really understand

Beware of bears in market pullbacks and corrections

ROWAN JONES

When the share market hits a rough spot, like it has now, it doesn't take long before terms like pullback, correction and bear market are bandied about.

The severity of the market fall dictates which of the three you'll read in the news headlines.

A pullback is the least severe and is regarded as a fall of between 5 and 10 per cent and is usually only temporary. In most cases it's viewed as a short-lived setback in an otherwise still rising market.

A market correction, on the other hand, is when the market sees a fall of 10 to 20 per cent. Unlike a pullback, a correction usually takes a little longer to play out — usually a few months or more. But if that slide continues and the fall reaches 20 per cent it's universally accepted we've officially entered bear market territory.

It goes without saying that as investors we have no way of knowing if a pullback will turn into a correction and if a correction will turn into a bear market.

Sudden falls in markets can often lead to even more volatility as investors speculate and worry that a bear market might be around the corner.

So where are we right now? In August last year the ASX200 hit an all-time high of 7633 and on Friday it closed at 6998. This represents a fall of 8 per cent, which is firmly in the pullback zone but not quite in correction territory. To escape falling into a bear market we need to keep above 6100.

In the US, the tech-heavy Nasdaq is on the verge of a bear market, having fallen nearly 20 per cent since its November high.

The Dow looks set to confirm a correction, having fallen just shy of 10 per cent since its all-time closing high on January 4.

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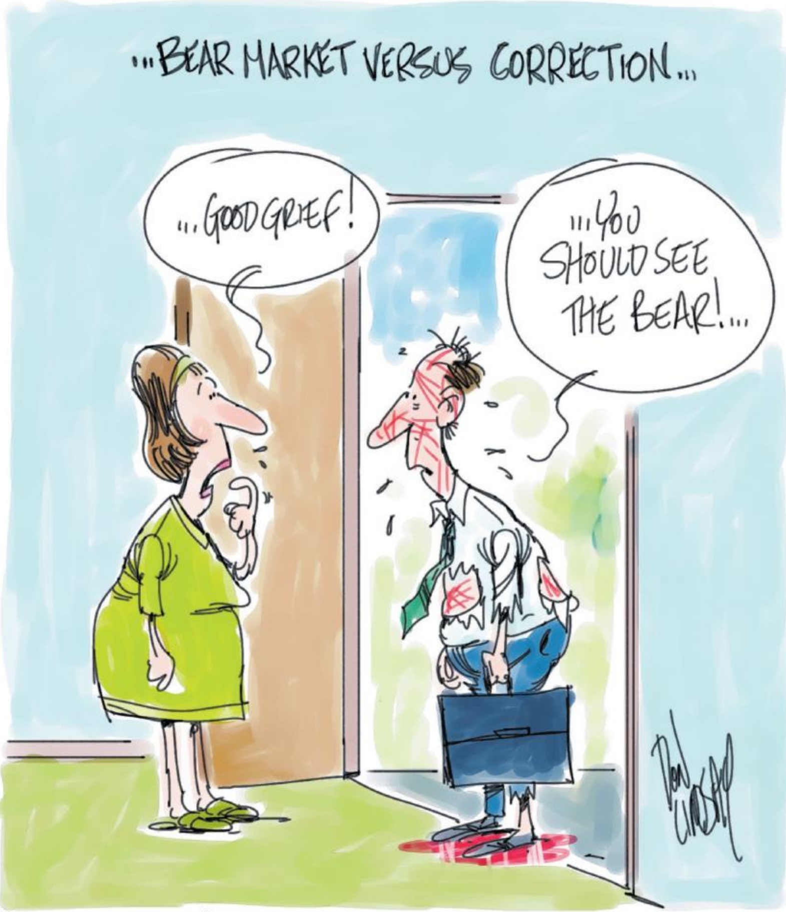

Illustration: Don Lindsay