

Placing Bear Markets in Perspective

Let's start by remembering what Harry Truman said: "The only thing new in the world is the history you do not know." These are wise words to live by in the second year of a steep bear market that the screaming meemies on television are calling "unprecedented" and "completely different this time." As usual, they are wrong. Just because it makes a good headline doesn't mean it is true. Bear markets are never different this time. The particular circumstances may be different, but their genesis, progress, and demise follow a familiar pattern.

Essential and commonplace

Bear markets are a commonplace part of a continuing market cycle. When times are good, economies overshoot the mark. Individuals and businesses borrow too much for marginal enterprises. Investors pay too much for questionable stocks. The economy grows beyond its sustainable capacity.

Then a day of reckoning comes. Ill-considered business projects fail, companies go bust, loans sour, consumers go bankrupt, and the economy sinks below its long term trend.

Is this unusual? Not at all. On average we have had a bear market during one in every five years since World War II. Thirteen bear markets (including the current bear) have occurred in 64 years.

The average investor, who works and saves for 40 years, will see eight bear markets. During a 30 year retirement he will see six more.

Temporary interruptions

The long term market trend is up. Bear markets temporarily interrupt, but do not end, this growth trend. The Standard & Poor's 500 Index stood at 19.3 at the beginning of the first postwar bear market in 1946. Today, even after falling 53% from its peak, it is at around 730. That's 3,682% higher than in 1946. At its peak in October 2007, the S&P was almost 80 times greater than it was in 1946.

What about the Armageddons past that threatened this expansion? They are all gone, wiped out by the inevitable resumption of growth in a free market economy. The advances in the market are permanent; the declines are temporary.

Bear markets are the reason the stock market rewards investors with real returns in excess of inflation. The long term return from stocks has been about 10%. Those returns reward investors who are willing to stand the extreme unpredictability and volatility of returns year to year. Investors who can hang on and continue investing in years when stocks decline 30% or 40% get that 10% long-term return.

How bear markets feel

If you listen to the media and buy the story that it's different this time and the end of the world truly is coming, then panic can set in. To counter those feelings, it is useful to look back at other bears and the conditions that the economy survived.

During the average 16 months of previous post-war bear markets, we have experienced

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A Bear Market Primer

disasters that seemed to portend the destruction of our economic system.

The stock market has survived the Cuban Missile Crisis of 1962, a presidential assassination, terrorists flying planes into the World Trade Center and the Pentagon, a nasty oil embargo, a hurricane that destroyed a major portion of our country, and 40 years of thermonuclear standoff with an enemy who wanted to destroy our way of life.

We bend but we don't break. The world goes on, even though it appears to be ending from time to time. One trick in a bear market (and a bull market, for that matter) is to avoid

extrapolation. Today's trend will not go on forever; we are not powerless to alter its course and one way or another the trend will change and growth will resume.

Below is a chart of all of the post-war bear markets, including the statistics on our current bear through Feb. 27, 2009.

By Richard Schroeder, CFP®, March 1, 2009. Information has been obtained from sources believed to be reliable, but its accuracy and completeness, and the opinions based thereon, are not guaranteed and no responsibility is assumed for errors and omissions. Nothing in this publication should be deemed as individual investment advice. Consult your personal adviser and investment prospectus before making an investment decision. Performance data published herein are not predictive of future performance. Schroeder, Braxton, & Vogt, 1412 Sweet Home Road, Amherst, NY, 14228 (716) 634-6113.

Market peak	Market trough	% return	Duration	Peak level	Trough level
05/29/46	06/13/49	-30%	36.5 months	19.3	13.6
08/02/56	10/22/57	-22%	8.0 months	49.7	39.0
12/12/61	06/26/62	-28%	6.5 months	72.6	52.3
02/09/66	10/07/66	-22%	8.0 months	94.1	73.2
11/29/68	05/26/70	-36%	18 months	108.4	69.3
01/11/73	10/03/74	-48%	20.5 months	120.2	62.3
09/21/76	03/06/78	-19%	17.5 months	107.8	86.9
11/28/80	08/12/82	-27%	20.5 months	140.5	102.4
08/25/87	12/24/87	-34%	4.0 months	336.8	223.9
07/16/90	10/11/90	-20%	3.0 months	369.0	295.5
07/17/98	08/31/98	-19%	1.5 months	1186.8	957.3
03/24/00	10/09/02	-49%	30.5 months	1527.5	776.7
10/09/07	02/27/09	-53%	17.0 months	1565.1	735.1