GETTING TO KNOW (AND TO LOVE...) 'THE BEAR'

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First off – why are the terms 'bull' and 'bear' used to describe a rising ('bullish') or declining ('bearish') stock market? The simplest explanation I've read is that a bull is associated with charging, and that it attacks with an *upward* thrust of its horns. A stock market that is rapidly moving (or 'charging') upward is sometimes likened to a rampaging bull. Meanwhile, bears can be more sluggish, and when attacking they tend to do so with a forceful *downward* swipe. A 'sluggish' economy will often follow or coincide with a bear market. There lie the similarities to a downward sloping stock market – or a 'bear' market.

More specifically, a 'bear' market is generally defined as a broad based selloff among equities causing share prices to *temporarily* decline by 20% or more. A shorter and less severe market downturn is typically described as either a "correction" (a 10% to 20% drop in prices) or a "pullback" (a 5% to 10% decline).

Now that we know what 'the bear' looks like - how often will it come sniffing around my stock portfolio? Historically the big bad bear has reared its ugly head approximately once every six years. In other words, investors should expect to see their stocks *temporarily* lose *at least* 1/5th of their value, ***on paper***, almost twice per decade according to historical averages. Remember, a bear market is a broad-based selloff which means there is generally no place among equities to hide. If you're invested in the stock market - regardless of what sectors you're exposed to, or which stocks you own – you're likely to get 'eaten' by the bear.

So how could this possibly be a good thing, and why on earth should I learn to 'love' the bear? The key words above are "temporary" and "on paper". These severe, often rapid declines for equity prices are always *temporary*. Or at least – even when the bear market stretches over a longer period than just a couple of months – they are never *permanent*, however. Remember, the long-term historical return among equities has a "+" sign in front of it. Stocks historically go up far more often than they go down.

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Perhaps just as important as recognizing the relatively temporary nature of bear markets, these drops are also only 'on paper' - unless or until you decide to actually capitulate or 'panic' out of the market along with the masses. By doing so you would then be *realizing* those losses. Otherwise, the depressed prices quoted during a bear market are really meaningless. Selling into a bear market makes about as much sense as rushing out onto your front lawn to put up a 'For Sale' sign after hearing that your home has temporarily dropped in value.

In such an environment, the intelligent investor should much prefer to be a *buyer* rather than a seller. Those who are selling in panic should take a moment to recognize one very important fact – *there are two sides to every trade*. When share prices are *temporarily* undervalued, which side would you rather be on – the buy side or the sell side?

Given this, a bear market should be considered a welcome event for equity investors; particularly those who aren't finished buying yet. But please don't just take my word for it. Here is an interesting quote from the world's greatest investor, Warren Buffett:

> *"If you expect to be a net saver during the next 5 years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy when stocks rise. Prospective purchasers should much prefer sinking prices."*

Despite the recent pullback/correction in the markets, very few forecasters or economists are predicting a bear market anytime soon - although of course, no-one can know with certainty exactly when the next "bear" will come along. Regardless, as your Portfolio Manager you can rest assured that when the next bear market does inevitably arrive, we'll be among those that are on the 'other side' of the trade - net buyers of stocks rather than sellers.

To discuss further, please feel free to contact me. For your current holdings, recent transactions and performance results please see your Quarterly Portfolio Summary.