WHAT GOES DOWN MUST COME BACK UP

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"The Stock Market is designed to transfer money from the Active to the Patient."
- Warren Buffett

Temporary stock market declines are inevitable, as we all know (or at least, should know!). Of course, the key word here is 'temporary'. Stocks go down for a brief, or sometimes even a prolonged, period of time - and then they always go back up again. After all, it is called the economic ***cycle,*** and it's the reason why – during any temporary downturn – intelligent investors will be net buyers of stocks rather than sellers.

I ask yet again… **who would you rather be when the price of the world's great businesses have just (temporarily) gone on sale, the buyer or the seller?** The serious investor knows that, no matter how bad the current doom du jour, the economy will eventually (and on occasion, quickly!) recover. Note, I did not say that they will necessarily know why, how, or even when it will recover. It's simply enough to know that it will recover. That's just the way it has to be.

"In bear markets, stocks return to their rightful owners."
- J.P Morgan

When the newbies and do-it-yourselfers are panic selling, as they typically do when stocks are cheap (and therefore when the 'risk' has potentially gone down, NOT up); we will happily take the other side of the trade – thank you very much! ***We don't just survive downturns*** (which we know are inevitable), ***we thrive because of them.***

And when those same neophytes show up once again, as they usually do, buying with euphoria at market highs (when stocks are expensive, and risk has also potentially gone up, not down…); we will dutifully take the other side of the trade once again. (Remember cryptocurrencies and cannabis stocks? Or the ".com bubble", for those of you, like me, who have been around a little longer?)

The Truth about Bull and Bear Markets

Here are some bull and bear market facts for the S&P/TSX Index, i.e., the Canadian stock market:

Average Gain During a Bull Market	**131%**
Average Length of a Bull Market	**4.5 years**
Average Decline During a Bear Market	**(27%)**
Average Length of a Bear Market	**9 months**

(Source: Bloomberg; 1956 through June of 2020)

Picture someone walking UP an infinite flight of stairs with a yo-yo in their hand. The impatient, novice investor watches the yo-yo – and panics every time they see it temporarily go down? They're not around for the inevitable 'swing' back up. On the other hand, irrespective of the temporary ups and downs (…of the yo-yo, in this admittedly silly analogy), the patient investor remains firmly focused on the trajectory of the person walking UP the flight of stairs.

That's the stock market. It behaves like a yo-yo, zigging and zagging up and down in reaction to a lot of never-ending short term noise – IF you pay attention to it. But it goes UP over time, along with the inevitable upward march of the economy and corporate earnings. The intelligent investor finds comfort in knowing that, as per the bull/bear data above, the downturns are temporary, while the long- term upward trajectory carries on.

"A market downturn doesn't bother us. It is an opportunity to increase our ownership of great companies with great management at good prices"
\- Warren Buffett

Here's the 'yo-yo effect' as it applies to even a great business. After just one bad quarter (i.e., an earnings 'miss'), the share price/yo-yo goes down. But then it's 'all hands on deck' in order to 'right the ship'! A good CEO will seek to under promise and then over deliver. And so the yo-yo/share price goes back up again after the next quarterly results are announced. But this is all very short-term focused.

Any good business will have more 'good' quarters than bad. For the true investor, they pay little-to-no attention to the 'seasonality' of quarterly/short-term results. They're focused on one thing - the quality of the underlying business, not the ebbs and flows of the share price. A great business will reward them over time.

If what the market does in the near term really matters to you, you shouldn't be in the stock market – at all!
If your investment time horizon is short, let's say three years or less, you are not an investor – you are a saver. And as such, you should be saving your money, not investing it. As I've said before, investing your short-term money in the stock market is like taking this month's rent money to the casino.

If we can agree on this fairly simple premise, why do so many would-be investors pay so much attention to the short term gyrations of the market or the economy (i.e., the up and down swings of the yo-yo)?

99% of what you hear or read in the financial "news" media does NOT apply to you AND your investments - at all!
It's simply just not meant for you; being the serious and savvy long term investor that you are! I'm making up the 99% figure. It may be less, but in my opinion it's not much less. As a Portfolio Manager, I'm inundated with information on a daily basis, each and every day, AND often including weekends.

Market data, economic updates, research reports, forecasts, outlooks, and opinions. My 'In Box' is ***typically full before I*** get out of bed in the morning. This is without even opening up a newspaper (…yes, believe it or not, I still get the Financial Post delivered to my door every weekend!).

As I sift through this information, I very rarely see anything that is of any real 'investable' value at all. And when I peruse the news headlines, I'm often not even getting the truth! I'm an investor just like you. As such, up to 99% of the info I see on a daily basis does not even apply to me – and it doesn't really apply to you either.

Why? I really could write a book on this. But first and foremost, almost all of it is very short-term focused. It's really meant for traders and speculators, not any true, intelligent investor. It talks about what the market did ***yesterday.*** When it's not reporting on what already happened, the media so often attempts to predict what the market/economy might do in the future, specifically, the near term future. Of course, these predictions are always made with a very heavy tilt toward the negative.

It's disaster and doom-and-gloom that sells. The truth: the market and economy will do what it has always done throughout history, go up – isn't really news at all. As such, this fact rarely gets 'reported'.

So why pay attention? We know all that we need to know – the market goes up over time. We also know that it's impossible to predict what it will do in the short term.

The prices quoted on any given day – or the market values you see on your investment statement for any given month, quarter, or year – are only of any significance to you if you are buying or selling at that specific point in time.

A monthly statement that shows a decline in the market value of your portfolio does not mean you lost money! It simply means that, IF you were an extremely short term investor (…one month!?), AND you made your entire investment on the first day of that month – and then you proceeded to sell everything on the last day of that same month, you'd have lost money. Who does this?

Of course, the corollary is also true. A monthly statement showing a gain – on paper - doesn't mean you actually made any money. **The only price that matters is the price you pay when you buy, and the price you will eventually receive when you sell. All of the noise in between is just that - noise!**

"A serious investor is not likely to believe that the day-to-day or even month-to-month fluctuations of the stock market make him richer or poorer."

\- Benjamin Graham

Finally, I recently came across the following from my friends at Value Partners Investments;

"When prices are falling, ask yourself these questions: In one week, one year, or ten years from now

...will people still be driving cars?

...will people still be drinking coffee?

...will people still be heating their homes?

...will people still need mortgages to buy homes?

...will trains still be used to transport goods?"

(See their 'Down Market Manual' at valuepartnersinvestments.ca)

Of course they will – to ALL of the above, at least in some fashion. That is why the long-term trajectory is always UP. In the meantime…

"Stocks will fluctuate substantially in value. For a true investor, the only significant meaning of price fluctuations is that they offer an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal."

Benjamin Graham

So let's all be ever mindful of the fact that, when it comes to the economy, the stock market, AND your investment portfolio – **what goes down must come back up!**