

## “ BEAR MARKETS DO HAPPEN”

The clouds get heavy, the sky gets dark, and it begins to rain.....but as always sunshine follows and dries up the slippery puddles. As investors, we need to remember that economic downturns are unavoidable and are a **natural** part of investing as slippery puddles are to rain. And more importantly, we also need to bear in mind that hand in hand with such downturns are bear markets.

A bear market is defined as a 20% (or greater) sustained decline in asset prices. The US technology laden index, NASDAQ has declined a record 56% since its March 2000 high and the S&P 500 has lost 18%. Though severe, this isn't uncommon. A bear market has occurred on average once every five years since the 1950s, making them a common part of investing. Most times, the stock market returns to previous peaks within a few years of a bear market's end. The best way to weather the storm is to be invested for longer than they last. This means that every bear market in history has been a good opportunity to buy good companies less expensively. This bear market is not likely to be any different. To a large extent, bear markets are like rain, we need lots of it to make things grow but you almost never hear it being discussed as a good thing.

Drawing from one of Warren Buffet's famous quotes *“If you expect to be a net saver during the next five 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 at seeing stocks rise. Prospective purchasers should much prefer sinking prices.”* The market is really a place to set aside some money, methodically adding to your savings with the knowledge that over the long run the historical returns of the stock market will reward the patient investor. In 1999, the NASDAQ returned 86%. In 2000, it declined by 39%. Whilst we did not expect that yesterday would be horrible or can we say with certainty that today will be good, one thing we do know is that there will be ups and downs and, most importantly, that the market does not stay beaten down for too long. ***Be patient, bear markets do happen.***

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*\*\*\*Although return on equity investments tends to be more attractive over the long-term, we stress that investing in equities carries some amount of capital risk. Periods of stock market declines may therefore have a negative impact on the value of your investment.*