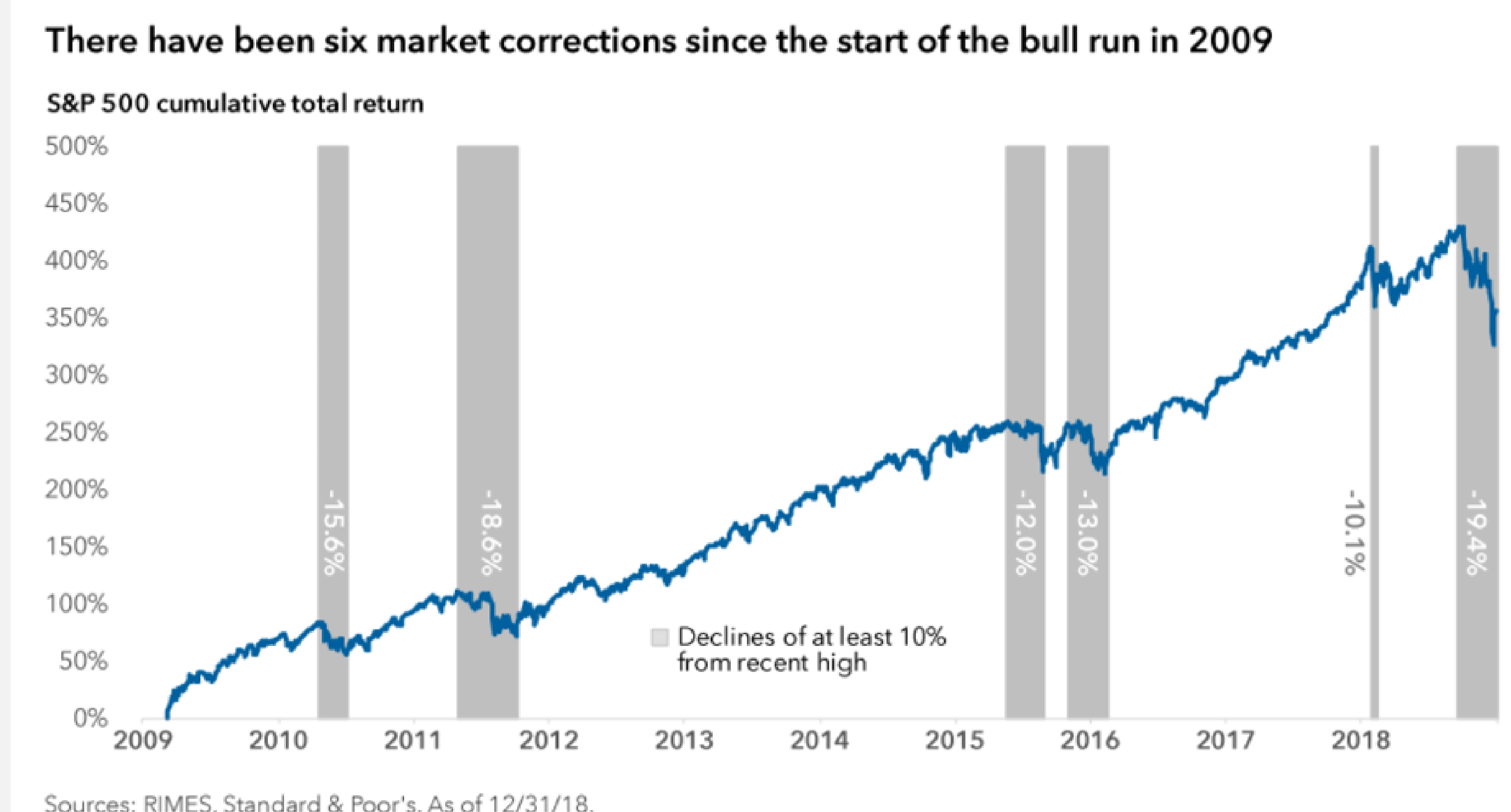
Bear Markets – The Only Time to "Get Out" is Before it Happens, and Most of the Time, You Will Be Wrong!

Curt R. Stauffer

September 30, 2022

Subscribe

On average, stock investors endure a 10-15% sell-off every two years. On average, historically, only 15-20% of corrections will turn into a Bear Market period. Your odds are much better at the roulette table than trying to pick which correction will turn into a Bear Market. See the following 2009 to 2019 chart of market corrections showing that corrections are relatively common and most do not turn into a Bear Market:



Once in a Bear Market, it is too late to sell because Bear Markets last anywhere from three months to 18 months, and each one typically has several false recoveries or Bear Market rallies which look and feel at the time like the bottom of the Bear Market has been set, and recovery has begun, only to fail. See the chart below illustrating the last extended Bear Market period between January 2008 and March 2009:

Source: [justETF](): Performance of iShares MSCI World ETF October 2007 – March 2010. Dividends reinvested.

For the first eight months of 2008, the global stock market index, the MSCI World, represented by the iShares MSCI World ETF, remained in correction territory, trading down between negative 18% and negative 3%, before dropping over 30% in September, and down nearly 40% by March 2009.

As the chart illustrates, there is no way to know if a correction will turn into a Bear Market ahead of time. Also, once in a Bear Market, there will be several strong rallies that will look and feel like the worst is over, only to fail once these rallies pull in those investors who were lucky enough to panic, sell early, or have been on the sidelines for other reasons. Timing is a "sucker's bet," Most that attempt it fail and ultimately are no better off or even worse off than if they had just remained invested through the Bear Market.

Since I am using an illustration of the 2008-09 Bear Market, it is only fitting if I reach back to that time from my commentary of February 2009, titled **The Market Strikes a Somber Tone – We Find Rainbows**. I included in that commentary a quote from Chris Davis of the Davis Funds and the grandson of the legendary investor, Shelby Davis. A portion of Chris Davis' quote from an interview conducted by Morningstar at the time is as follows:

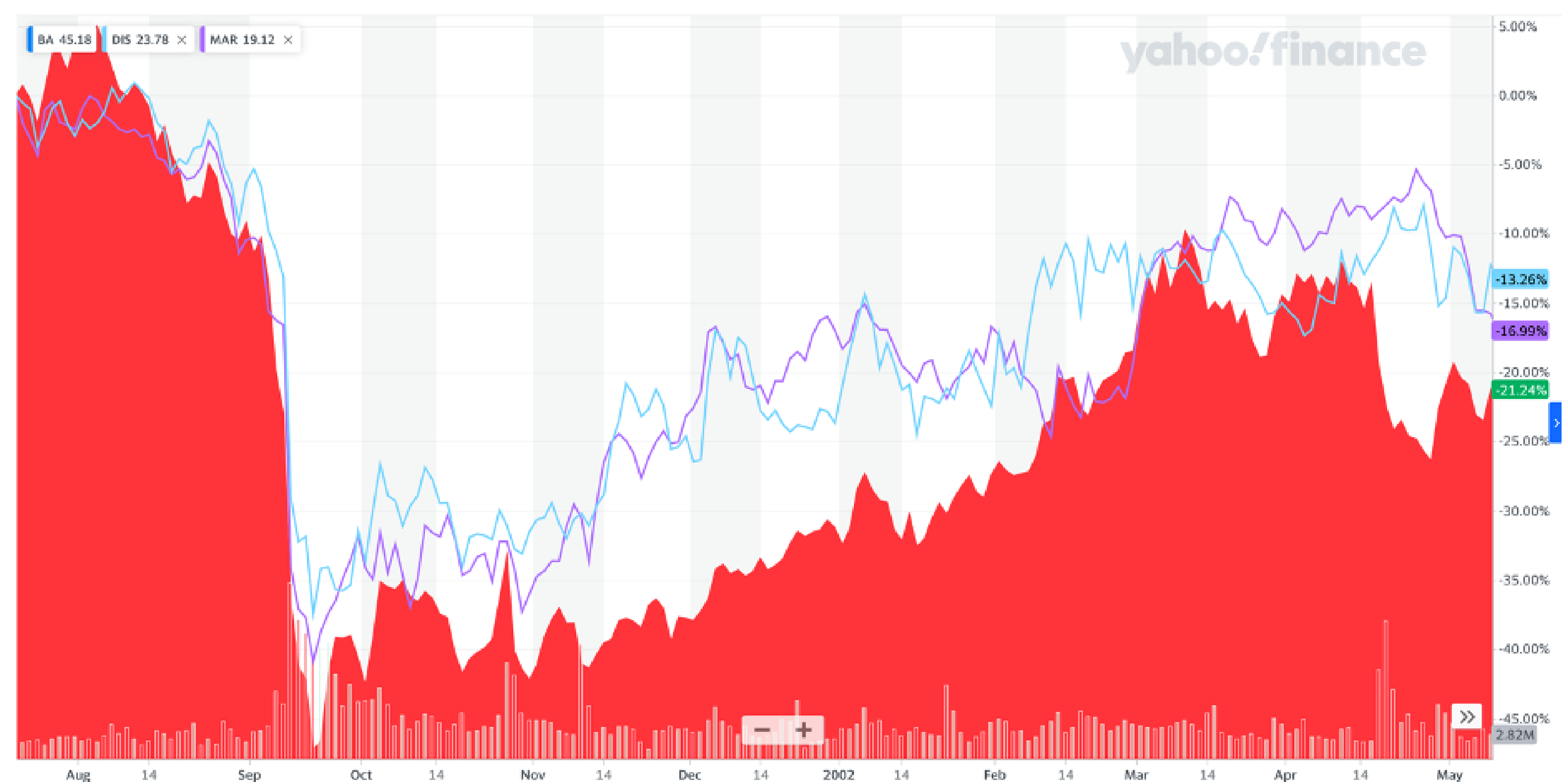
“When I started investing, my grandfather gave me a card written, “You make most of your money in a bear market; you just don't realize it at the time." Although, at first blush, this saying sounds counterintuitive—after all, in a bear market, prices are going down—it makes sense when you recognize that as investors, we are buyers and thus should welcome lower prices for the simple reason that lower prices may increase future returns. In bear markets, prices are driven down by fear and forced selling. Sellers are not asking what a business is worth but taking whatever they can get. Such irrational selling allows investors with the patience to buy great businesses at distressed prices. These low prices may increase future returns.”

“While the dire headlines we read day after day make "queasy" an understatement, they should be welcomed by long-term investors for their role in creating bargain prices. While we cannot predict the market's direction over the next month or the next year, we know that it will move higher long before the economy or the headlines are more reassuring. Investors will pay much higher prices if they wait until things seem better. In our experience, today's prices reflect some of the most attractive valuations we have seen in decades.”

Consistency through discipline is one of the hallmarks of all legendary investors who earned that designation over many decades of successful investing. If one read my commentaries from the 2008-09 Global Financial Crisis, Great Recession, and Bear Market period, which wiped out nearly ten years of S&P 500 gains, they would instantly recognize that my approach to this Bear Market is the same as it was thirteen years ago. Having managed money through the Dot.com bubble and collapse, the panic after the 9/11 terrorist attack, the Global Financial Crisis, and most recently, the Global COVID-19 pandemic stock market crash, there is one constant, and that is the steady drumbeat of apocalyptic predictions emanating from “so-called” experts and financial media pundits. I learned a valuable lesson early in my career, during which I was a commercial loan review officer from 1991 to 1992. This was a period that followed a deep nationwide commercial real estate recession. I attended various seminars when industry experts advised banks that it could take up to 15 years for commercial real estate values to recover to pre-recession levels. Banks decided to liquidate foreclosed property holdings based on these projections only to see values fully recover within 3-5 years. An important point relevant to what is going on today is that this rapid recovery happened while the Federal Reserve was raising interest rates starting in 1994.

I learned much during this stage of my career that is relevant to managing investments through difficult times. During the early 1990’s I met several real estate investors who made fortunes buying properties from banks amid deep pessimism. The same thing happened after the 9/11 terrorist attacks when the reflexive mindset of senior investment professionals in the organization where I worked argued that stocks, such as Disney, Marriott, and Boeing, plummeted on fears that very few people would ever fly commercial again. I took the other side at the time. I argued that the market tends to price in the worst-case scenario when fear and pessimism are paramount, inevitably creating significant buying

opportunities. The chart below illustrates the trading price of these three stocks just before 9/11/01 through the first quarter of 2002.



With each of the significant market downside events of the last 25 years, when you were in the middle of the selling, it felt like a unique existential risk that might result in long-term permanent loss of capital. The most critical perspective for long-term investors during periods of extreme pessimism and fear is the realization that they are attempting to benefit from long-term capital appreciation in a market increasingly dominated by short-term traders. Short-term traders are inherently trend-followers. They pile on a rising stock market, pushing prices higher than fundamentals dictate, only to sell into a falling market, pushing many securities' prices far lower than future forecasts justify. During these times, like in the days following the 9/11 terrorist attacks, the reaction of traders is to sell. Once the worst of the panic selling is over, investors, and even some traders, begin to look beyond the current fear and uncertainty and realize that the selling took prices to overly pessimistic levels.

This current Bear Market began as a valuation-driven correction, hitting stocks that were the biggest gainers in the 6-9 months following the "flash Pandemic Bear Market" of February-March 2020. Unlike the previous six corrections since 2009, this correction, with the help of the Russian invasion of Ukraine, turned into a grinding Bear Market. Unlike most prior Bear Markets, this one has not only hit equity investors hard but has also produced 15-20% losses in bonds. In our view, this Bear Market sell-off has been predominately fueled by an abrupt about-face by most Central Banks around the world as they moved from highly accommodative to highly restrictive in an attempt to stem stubbornly high inflation pressures. Because the Federal Reserve has chosen to front-end load interest rate increases over a very short period, markets have been kept off-balance since June of this year. Both the stock and bond

market look oversold at today's levels from our view, and when this has happened in the past, markets can turn upward as quickly and violently as they turned down upon the first signs that the Federal Reserve is "thinking" about winding down its rate increases. I am going to paraphrase Jeremy Grantham of GMO investments, who famously wrote during the darkest period of the 2008-09 Great Financial Crisis that ***the market does not rally from a Bear Market low when it sees the light at the end of the tunnel, it rallies when the end of the tunnel looks slightly less dark.***

Curt R. Stauffer

President & CIO

Seven Summits Capital

CURT R. STAUFFER
(C) 717 877 7422
(O) 717 735 0013
cstauffer@ssummitscapital.com

Disclosure:

Advisory services are offered through CS Planning Corp., an SEC-registered investment advisor.

The views and opinions expressed are for informational and educational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities, and should not be considered specific legal, investment, or tax advice. The information provided does not take into account the specific objectives, financial situation, or particular needs of any specific person. All investments carry a certain degree of risk, and there is no assurance that an investment will provide positive performance over any period of time. The information and data contained herein were obtained from sources we believe to be reliable, but it has not been

independently verified. Past performance is no guarantee of future results. References to market indices do not represent investible securities.

Exchange-traded funds (ETFs) are sold by prospectus. Please consider the investment objectives, risk, charges and expenses carefully before investing. The prospectus provides a balanced analysis of the investment risks and benefits. Read it carefully before you invest.

By Curt R. Stauffer
September 30, 2022

Share:

Get more personal finance tips

Weekly insights delivered directly to your inbox.

Your Name

Email Address

Phone Number (optional)

Sign Me Up

Information presented on this site is for informational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any product or security. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed here. The information being provided is strictly as a courtesy. When you link to any of the web sites provided here, you are leaving this web site. We make no representation as to the completeness or accuracy of information provided at these web sites.