March 2008 *MoneyMinute* – The Bears Are Wrong

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Bears are used to describe down markets (bears attack by clawing down); bulls are used for up markets (bulls attack by thrusting upwards). This piece is excerpted from three sources: Nick Murray's book *Simple Wealth, Inevitable Wealth* and his article, "The Gulliver Myth" in *Financial Advisor* March 2008, and the March 2008 Advisor Intelligence Commentary from Litman/Gregory. We want to pass the wisdom on to you:

We are traveling at 70 mph on a highway headed toward the Grand Canyon. Based on the data that we are 70 miles from the rim of the canyon, it can be deduced that we will hurtle over the rim and settle rather noisily into the Colorado River below. Assuming that we maintain our current direction and speed, we will be smashed to bits with inexpressible violence.

The implied assumption is that we will ignore the looming peril and not change direction or speed. Quite the contrary, we are not helpless; we have the means to avert catastrophe. The impending disaster may only be projected in the absence of these means, or in our unwillingness to use them; neither hypothesis is probable, nor even reasonable.

The car in this parable is, as I'm quite sure you have already intuited, the American economy. The catastrophist myth—the fundamentally silly assumption in all seriously bearish hypotheses—is that we have no control over the car.

The most recent enactment of this silly assumption was vividly presented in recent months when the accelerating credit-driven global economic slowdown cascaded into a world-wide collapse of confidence and thence into a sharp, savage decline in equity prices here and abroad. Mr. Market—who had euphorically bid the equity markets in the U.S. to new all-time highs as recently as October 9, 2007—went suddenly and completely off his meds to the extent that a few months later, he was offering his portfolio for sale to anyone who would take it at nearly a 20% discount.

Journalism was moved to unprecedented paroxysms of excited negativity, headlined by the "inevitable" recession which was reported surely to be bearing down on us, amid the subprime mortgage crisis, the oil crisis, the housing crisis, and any number of other unstoppable disasters which were leading to rising unemployment, a precipitous decline in consumer spending, and heaven knows what other irreversible economic and financial cataclysms.

Instead of journalistic gymnastics, let's consider the facts:

1) Since November 1982 – a bit more than a quarter century ago—the American economy has been in recession exactly twice ***for a total of sixteen months***.

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2) The government has passed an economic stimulus package that puts about $150 billion back into the economy **exactly the number of dollars which rising oil prices had taken out in all of 2007.**
3) We've been through many, many crises before—the greatest stock market bubble of all time, 9/11, Y2K, accounting scandals, the greatest natural disaster in American history with the total devastation of a land mass larger than Great Britain, the cold war, World War I and II, Vietnam War, plus many more and we survived and the equity markets went on the greater highs than ever before.
4) Every down market cycle, no matter how deep, has always been following by a full recovery. Since 1950 there have been 12 down market cycles where the decrease was at least 15%. See the table just below for details. (Peak-to-Low measured by S&P 500 prices, Low-to-Recovery measured by S&P 500 with dividends reinvested)

Peak Date	Loss	Months to Low	Months to Recover
8/2/1956	-21.6%	15	10
12/12/1961	-28.0%	7	11
2/9/1966	-22.2%	8	7
11/29/1968	-36.1%	18	11
1/11/1973	-48.2%	21	47
9/21/1976	-19.4%	18	6
2/13/1980	-17.1%	2	3
11/28/1980	-27.1%	21	2
8/25/1987	-33.5%	4	18
7/16/1990	-19.9%	3	4
7/17/1998	-19.3%	2	3
3/24/2000	-49.2%	30	51

5) Bull markets last longer than Bear markets. About 2/3 of the time American stock markets have been in a rising phase. The longer you are in the stock market, the more probable are profits. See the table just below for the historical probabilities of positive returns over five, ten, and fifteen year rolling periods. (1926-2003, S&P 500, dividends reinvested)

5-year Periods	10-year Periods	15-year Periods
89.5%	96.4%	99.7%

Investing is not about market timing, it's about time in the market.

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