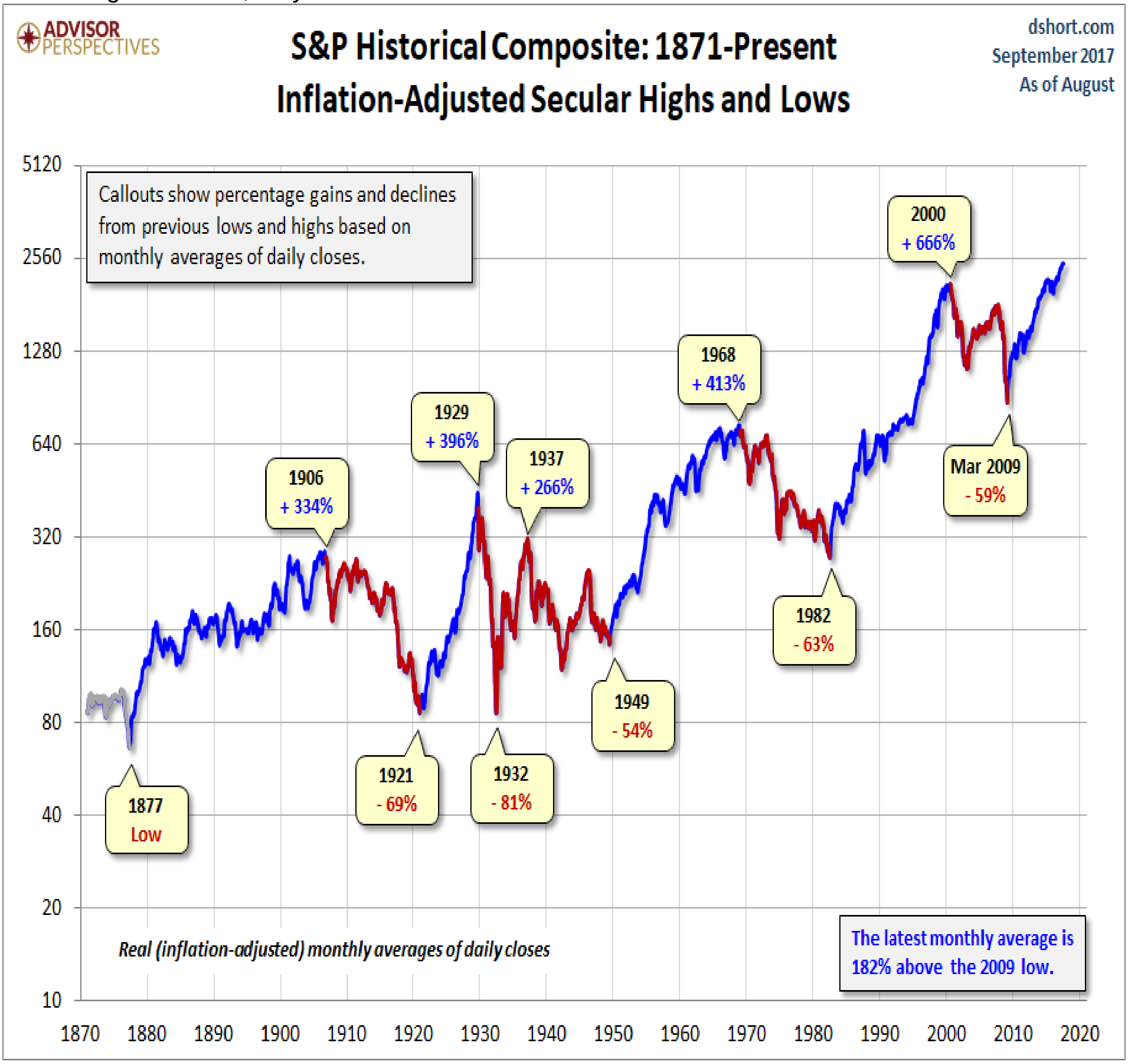
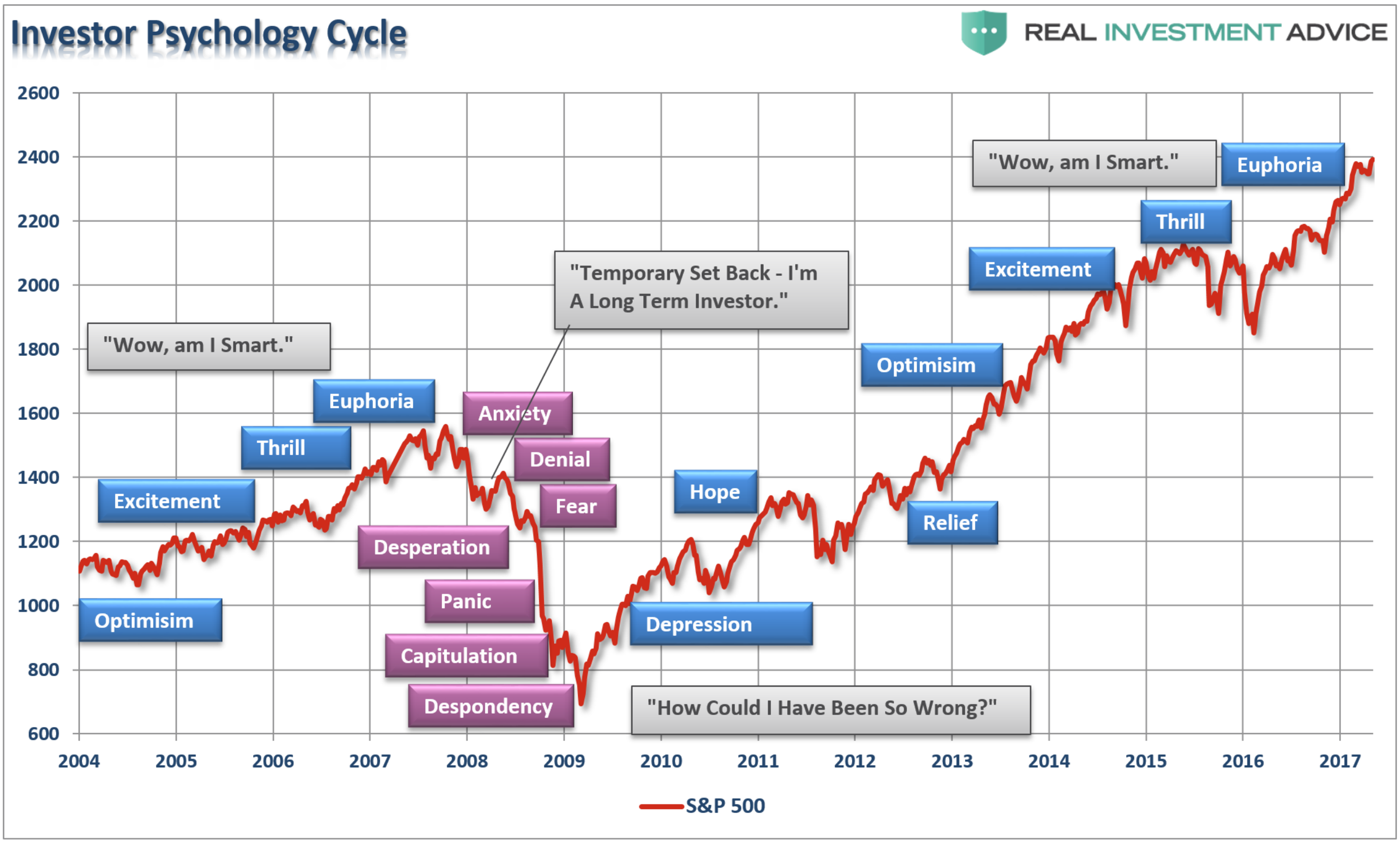
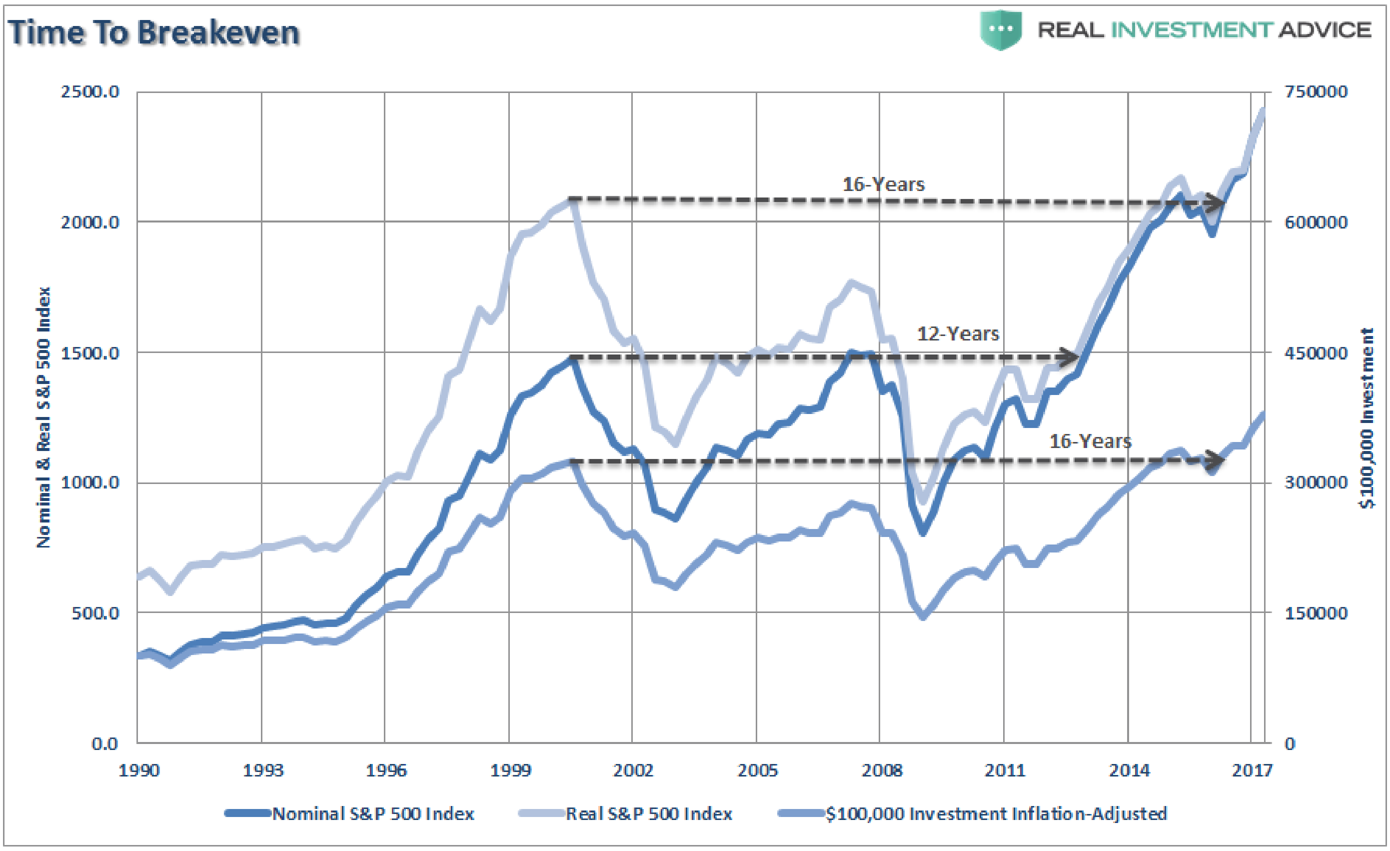
A bear market is coming. Such a brilliant forecast, I know. But do you believe it? I mean deep inside do you understand that bear markets are par for the investing course? **Well, then consider yourself enlightened.** An entire generation of financial professionals as well as investors have yet to experience a correction (10% off recent highs), let alone a bear market (20% downturn from a previous peak). Except for perhaps referenced as a minor corollary to the endless big bull story, the bear appears to be in extended hibernation. It isn?t the first occurrence of such behavior. If history is a guide, then it?s important for every investor, especially the novice brethren, to take to heart how long bull cycles ostensibly lead to wealth-devastating bear markets. The bull stampede has now lasted close to a decade. An unprecedented tailwind for risk assets primarily fueled by synchronized global central bank unconventional monetary policy may be coming to an end. For example, the Fed plans to unwind its $4.6 trillion balance sheet of bonds through sale or maturity. The goal is to reduce by $450-600 billion every year. Several Fed officials and revered market pundits have publicly predicted that the imminent liquidity drain, the unwind of this great experiment, will have minimal impact on markets. Strange how quantitative easing helped to drive stocks to historic highs yet reversing the process is perceived as no big deal. Let?s hope they?re correct and the Fed?s actions don?t derail the bull cycle. However, just in case they?re incorrect (can you imagine?) •a currently unpopular sentiment should at least be brought into the discussion. Well, what I mean is, if you bring up bear markets, immediately you?re deemed bearish which is deflective nonsense. Anything to keep the narrative going that the stock market only moves higher in the long term. Well, they sort of do. But?



On the surface, markets over very long periods (if you started investing in 1877 you?re doing great,) do indeed make progress, but a crucial element of the story is not getting enough attention. Close to 40% of the time, the bears control the field. Those who preach the forever-bull narrative are proud to reference how bear cycles aren?t as devastating on wealth as bulls are beneficial to it. Unfortunately, reality in the form of human emotion conflicts greatly with this thesis. Retail investors tend to herd into stocks late in a cycle thus missing important miles of the bull run.



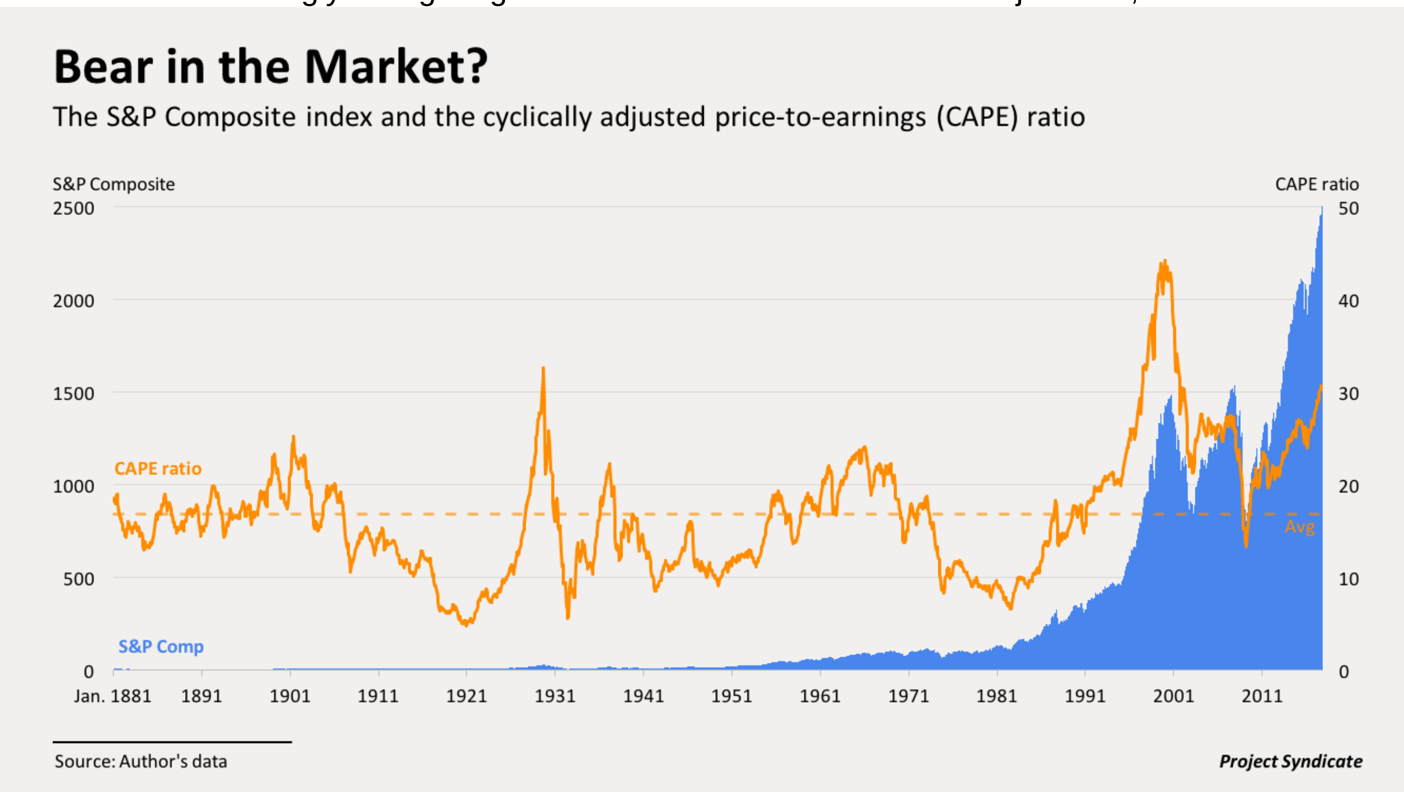
The harsh reality is many investors take the bear ride to the bottom (as they?re advised to hold on), until they can no longer take the bleeding and ostensibly sell. This sordid loop of emotional and cognitive biases along with advice from financial sales professionals who are perceived incorrectly as students of markets, extends what I deem the lethal ?time tide.? You see, you can buy at market tops all you want and speculate to capture upside momentum; unless you have an exit strategy or rules to minimize potential damage, then the mathematics of loss is eventually going take the tide of time out and precious years required to make up for the wealth will be lost forever. You?re two wrinkles on the forehead away from break even. Time is worth something; it?s not unlimited nor endless. It shouldn?t be ignored yet it is rarely discussed. You?ve heard that ?time in the market counts, not timing.? Sure. But why are you spending a majority of time getting back to where you were ten years ago, or longer? Why would an investor purposely intend to spend the majority of a brief investing life striving to break even? Why is it considered an accomplishment or some sick form of fortitude as opposed to ignorance and complacency? Why does the financial industry consider ?breaking even? such a badge of honor? It?s fiscal wheel spinning in the muck at top speed. A blind buy-and-hold policy is anathema to growing and protecting wealth for investors but lucrative for entities that create or manage investments.



So, if you?re late to the investing game. If you?ve been sitting it out and now feel confident enough to take the plunge into the stock market, there are a few things you need to know before you leap.

Respect Bear Markets.

They?re not to be underestimated as they are the catalyst for damage to financial goals and time required to attain them. Markets can hit further new highs from here as long as there?s the perception that there?s no other investment game in town. Keep in mind however, that current investors are unwittingly taking on greater risk to achieve returns at this juncture, too.



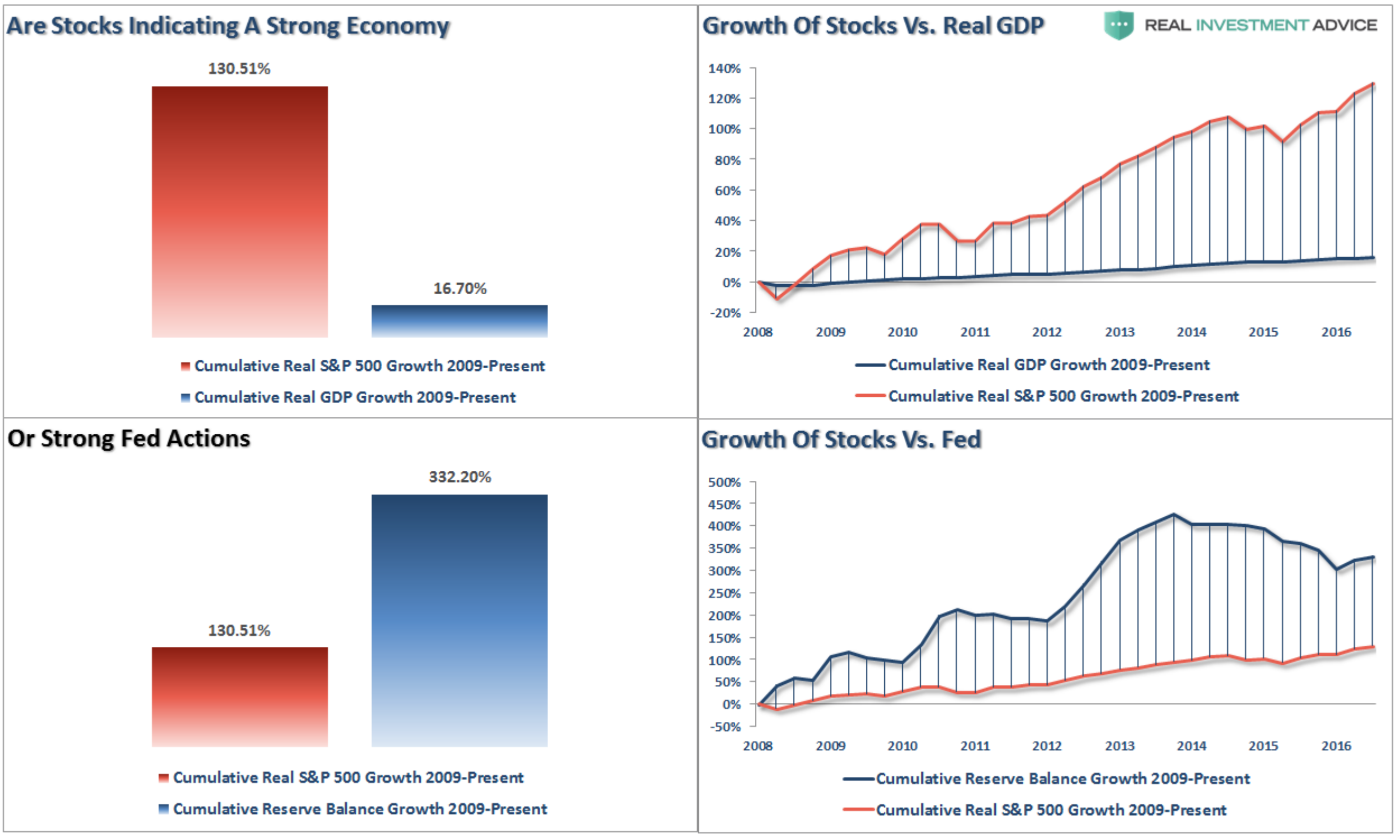
Professor Robert J. Shiller in a recent piece for www.project-syndicate.org, outlines how the U.S. stock market today appears much like it did before 13 previous price collapses or bear markets. Bob Shiller is the co-creator of the CAPE or the cyclically adjusted price-to-earnings ratio which is calculated by dividing the inflation-adjusted stock index by an average of prior 10 years of earnings. Although the CAPE is not a consistent predictor of change in the short-term trend of the market, it does serve as a formidable warning of the impact of richly-priced stock prices on future returns. At just above 30, the CAPE has only been exceeded twice ? in 1929 and 1997-2002. Higher than average ratios imply below-average future returns. The average CAPE stands at 16.8 going back as far as 1881.

> *?Peak months before prior bear markets had a tendency to show improving earnings growth and stock-price volatility that was lower than average in the year leading up to the peak month preceding the 13 previous U.S. bear markets,?* - Robert Shiller.

Sound familiar? Per my observation, bull markets of the longest duration tend to fade into the most devastating of bears. That?s not a prediction, it?s a warning against complacency when positioning new money in stocks today.

The Fed May No Longer Be The Market?s BFF.

I think it?s clear, or at least as clear as the Fed is programmed to make it from their public statements, that the market momentum risk-asset inflation game is going to conclude sooner rather than later. As Yellen appears to be moving increasingly from data dependent to data ignorant, the door is open wider to hawkish actions. Whether it?s withdrawing liquidity which has helped fuel the bull market in stocks, or raising short-term rates which will place additional financial debt service burden on households already laden with liabilities, the news is a threat to the long-term tailwind for stock prices. We aggressively monitor Fed actions at Real Investment Advice.

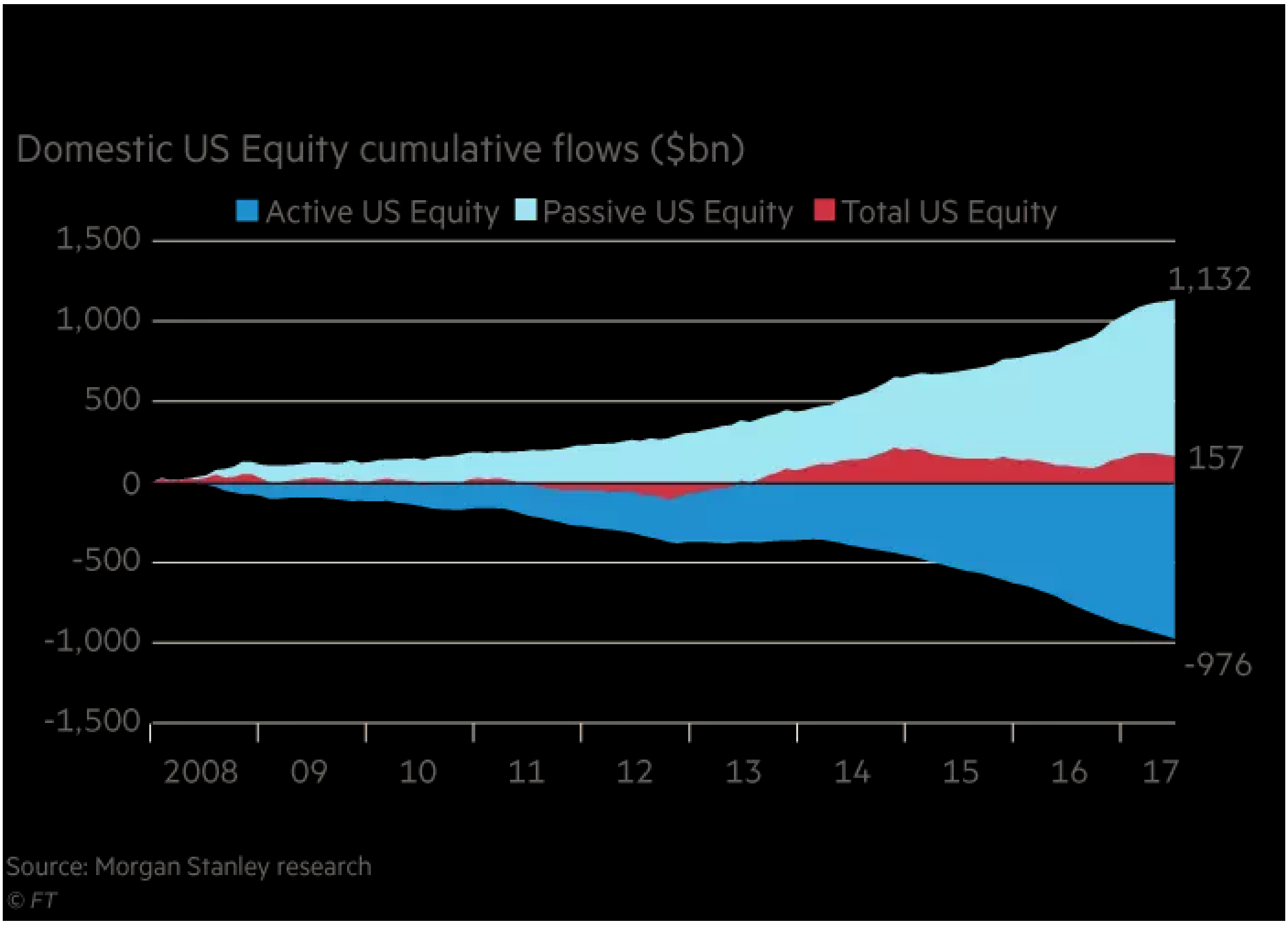


The Fed?s greatest contribution hasn?t been to economic prosperity since the Great Recession, it?s been to stock market appreciation. *Per Lance Roberts:*

?The Fed?s monetary programs have inflated the excess reserves of the major banks by roughly 332%.• The increases in excess reserves, which the banks can borrow for effectively zero, have been funneled directly into risky assets to create returns. With the Fed threatening to withdraw the reinvestment from their massive balance sheet, one has to ask just how much risk to asset prices there currently is??

Just something to ponder if your adviser encourages a full allocation to stocks at your next review meeting.

The Penchant For Passive Is Exploding Into Panacea.



I have nothing against low fees. They are a clear advantage of passive investments. I do have a great concern over the complacency that seems to accompany *passive INVESTING*, however. To be clear, I?m an advocate for index•*investments*•and lower internal portfolio costs. I was one of the first financial professionals at a former employer to use market cap weighted exchange-traded funds in client portfolios to replace mutual funds even after I was advised by research management at that organization how exchange-traded funds would ?never gain the popularity of mutual funds.? My beef is how indexing is perceived by unsuspecting investors as safe and insidiously branded or allowed to be positioned by the buy-and-hold faction, as the ultimate•*never-sell*•strategy. The asset allocator factory box designers are diligent at work, creating neat, easy-breezy investment packages positioned as products or ?solutions,? thus forging a path perhaps we haven?t walked so passionately before. ***The investment vs. valuation connection is aggressively being severed*****.** •Asset-allocation solutions are being positioned to ?pros? as simple, third-party adjuncts to an overall financial planning experience. The intoxicating promise of ease and low cost which places what you pay in the form of valuations in a clean-up spot, or makes it an afterthought (if that), is incredibly alluring. Buy it up now, let it grow, harvest later. Simple. After all, stock valuations are as easy to comprehend as nebulae millions of light years away. So why bother? Just buy the box.

Open in 20 years. Hopefully, just hopefully, there?s something greater in there to show for the passage of precious time.

> ***The demand for the product of stocks to market and maintain aggregate static asset allocation programs has overridden the price paid for the product. It?s a phenomenon that eventually loses luster, just like every other story on Wall Street.***

It?s beginning to feel cult-like this passive movement; it?s at fever junctures when the flavor of the day usually loses some of its appeal. For example, so far this year, investment managers are witnessing a break in tight correlations or the positive linkage among individual stocks and underlying indexes, providing them an opportunity to outperform their passive brethren. It?s too early to say whether this is a long-term shift. Although, low correlations tend to represent late stages of a bull run. It?s smart to utilize passive investments within your asset allocation. It?s not wise to blindly accept a passive investing strategy. **Understanding the difference will help you avoid big losses.**

> *Remember: Passive investing is not safe.•Not by a long shot.•Passive is an•**investment type**. It is•**NOT an investing process**•nor a manner to which RISK is managed.*

The clearest thought I can conjure up about passive investments and bear markets is I have great potential to lose money at low internal costs. Never forget ? Once wealth is allocated to stocks, it?s active. On occasion, radioactive. Plain and simple. Index positions must be risk managed. They bear the full risk of markets. The highs and the lows. There?s no•*escape-risk-free*•card. Stock market investing is a worthwhile addition to an overall plan of growing or preserving wealth along with debt management, a consistent saving discipline, a strategy to maximize life-time earning potential, and the exploration, commitment to alternative investments like real estate or private business ventures. Stock investing isn?t ?set it and forget it.? For as many ?theories? which outline this method as ideal, there exists an equal body of work from brilliant mathematicians and academics who claim the opposite. Unfortunately, it will take a wake-up call like a bear market or at the least a correction, before the blasphemy holds relevance. Which side of the fence you reside depends on personal investing philosophy, past experience and the financial partners you choose to listen to. An investor would be wise to adjust downward future return expectations for money invested in stocks today. Perhaps it?s time for you, the investor, to share an unbiased market history lesson with your adviser. After all, it?s you, the one with *?skin in the game,?* who is taking on all the risk, aren?t you? You may need to be more emotionally grounded and maintain greater restraint than your financial partner at this juncture. The current environment warrants it.