RIA Advice

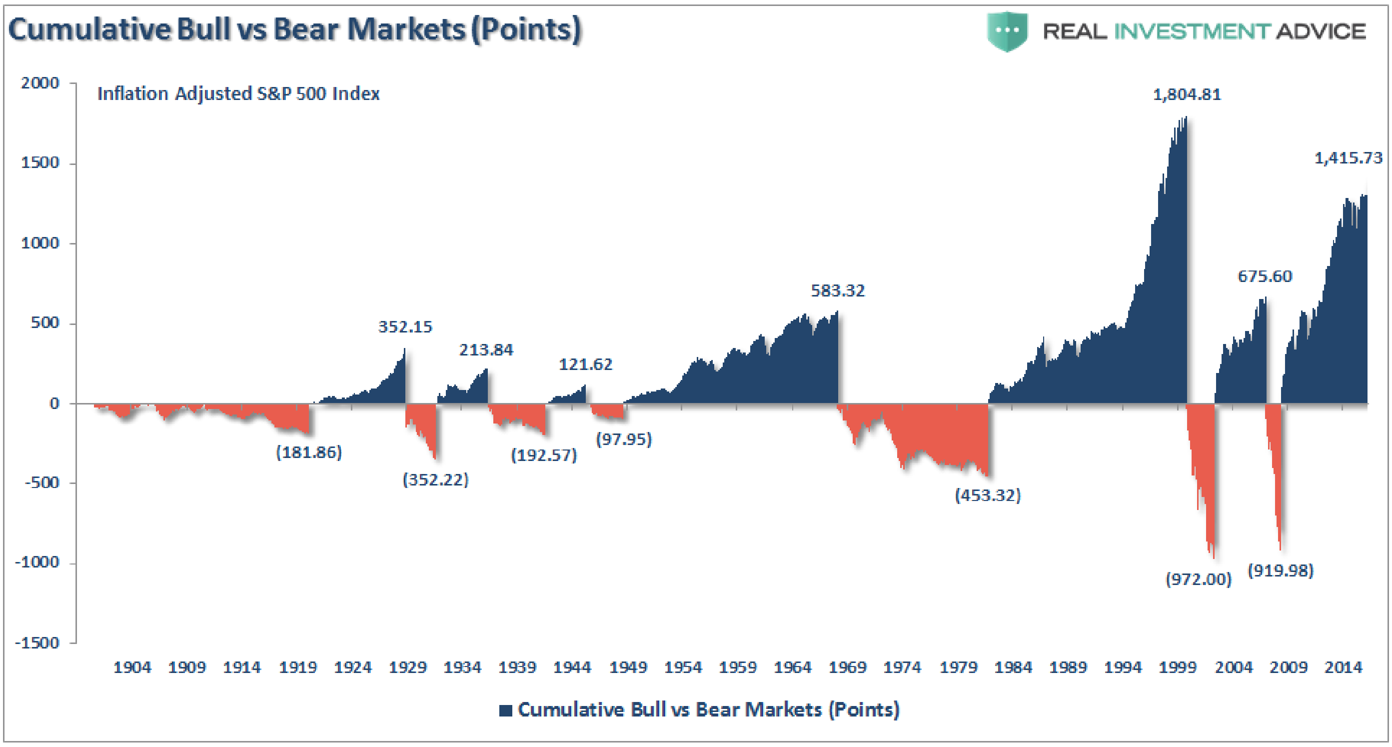
Bear markets are a challenge for investors to endure, emotionally and financially. Bears are part of the deal. You wouldn?t know it, especially based on stock behavior as of late, but markets do thrive or die in spans of time, or cycles. Never forget ? When you play, you eventually pay. The market is one of the greatest legalized mechanisms, hotbeds if you will, of humility and euphoria. One of my hobbies is reading biographies of lionized Wall Street traders. Jesse Livermore was a legendary albeit tragic figure whose life is thoroughly documented in the book *?Jesse Livermore ? Boy Plunger: The Man Who Sold America Short in 1929,?* by Tom Rubython. Livermore achieved and squandered great wealth. Enough for multiple lifetimes; however, the trade that placed him on the national radar was the $100 million fortune made selling short in the few days up to and including, October 29, 1929. Many of the rules this master trader created are still discussed and followed today. Wait ? tell me if you heard this one?

Bear markets don?t occur that often.

A tenured fairytale spun by most of the financial industry and its money-candy media arm is how U.S. stocks are in bull markets historically 80% of the time (not really), thus minimizing the impact of the carnage of bears. Therefore, you as the protector or the primary party responsible for safeguarding your family?s wealth, must remain grounded, vigilant and relentlessly skeptical. *Per market and economic historian Doug Short, since 1877:*

- *Secular bull gains totaled 2075% for an average of 415%.*
- *Secular bear losses totaled -329% for an average of -65%.*
- *Secular bull years total 80 versus 52 for the bears, a 60:40 ratio.*

Secular, or long-term bears occur 40% of the time; more often than is communicated clearly by mainstream financial news. Flippant sound-bite commentary like ?*stocks usually go up,?* falsely lulls retail investors into complacency. I?m certain the message is not designed to purposely obfuscate; personally, I believe biased or blinded financial professionals are chained to big personal liabilities, fear and possibly overblown egos which seduce them into swallowing the data-mined swill administered by their employers? research departments. Ironically, individual investors seemingly earn a badge of courage by Wall Street for standing tall and taking the full fiscal kick to the household balance sheet that takes years and additional hard-earned capital to recover from. Breaking even is a strange dichotomy to achieving wealth over time. Don?t let the percentage gains of bull markets fool you, either. Percentages can be misleading. Let?s focus on the point gains and losses.



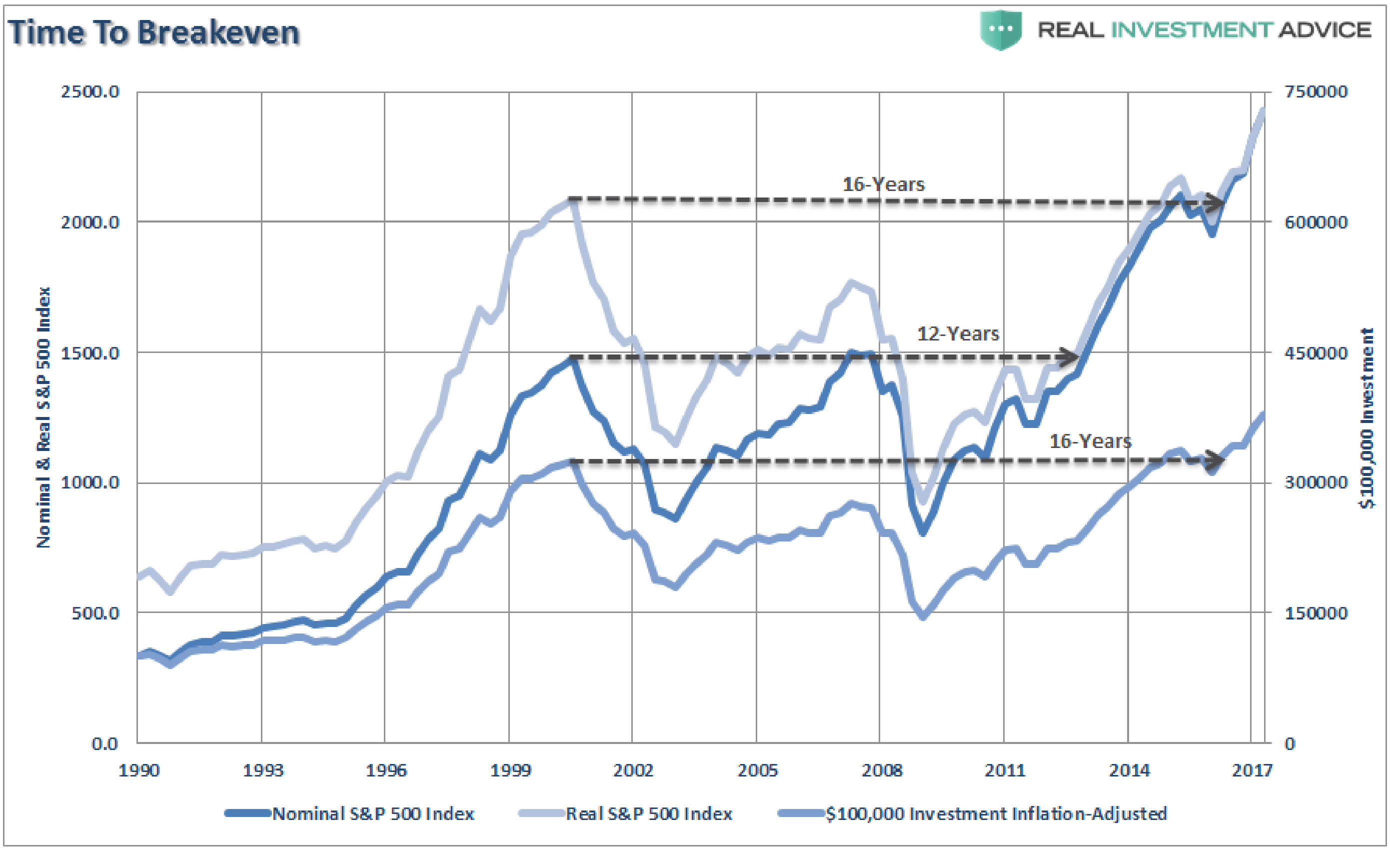
A clearer picture emerges above. Bears appear more prominent. In some cases, they can wipe out previous gains entirely. That?s not to say you shouldn?t invest. What it does help to understand is that risk must be managed. Through proper asset allocation matched to the time required to reach a financial goal, coupled with a rules-based sell discipline, it?s possible to reduce the impact of severe losses. Unfortunately, during a bear mauling when financial professionals are paid to step into the line of fire between you and your emotions, you and large drawdowns, they default to either their big-box company lines of false ?comfort,? (what if you missed the 10 biggest market days?), as part of a musty old script crafted during and unrevised since cone of the [greatest U.S. bull runs] which began in August, 1982. Here are additional stale lines that will leave your wealth out in the cold.

It?s only a loss if you sell.

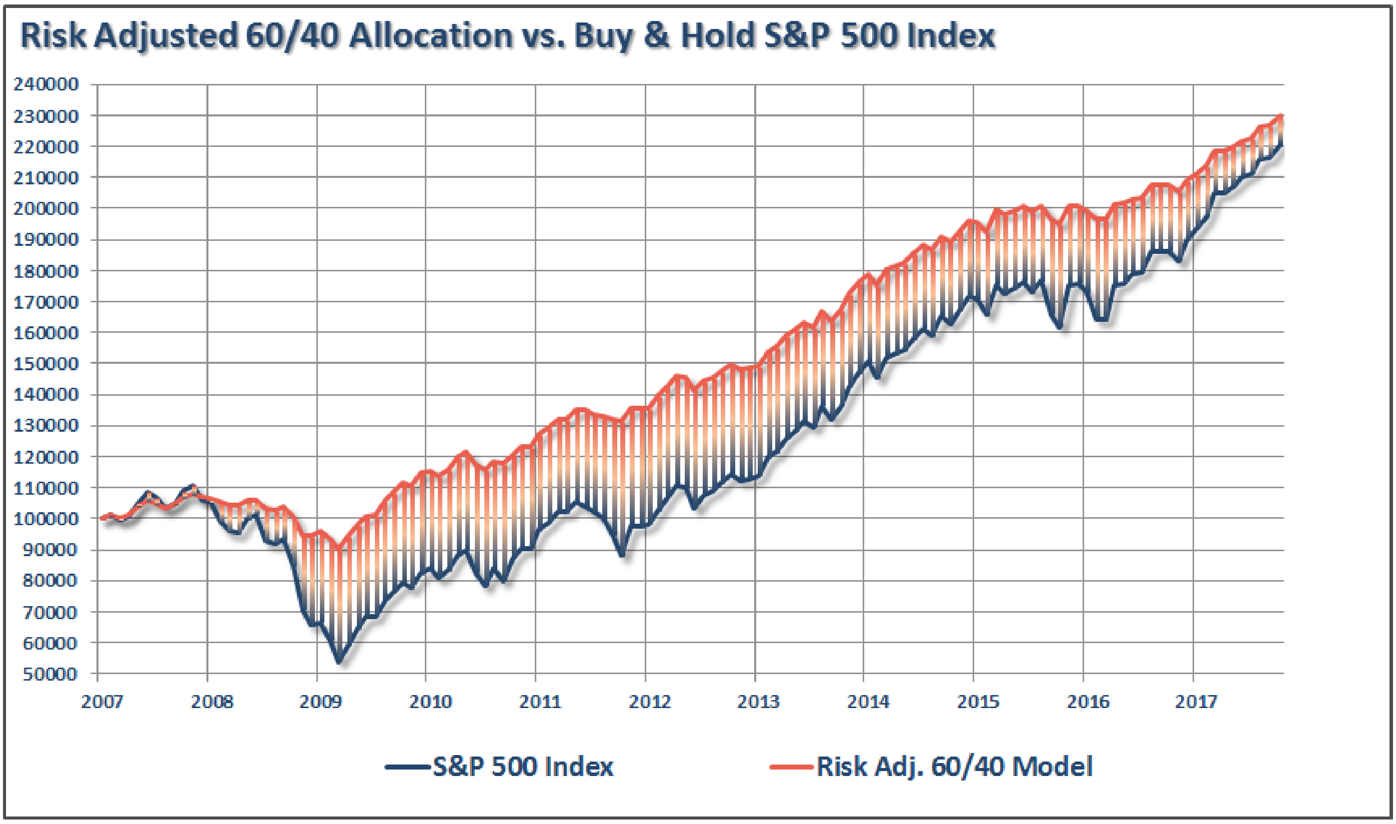
No, I?m pretty sure it?s a loss. To ?ENTER,? a sell order and change the status of the loss from unrealized to realized is not considered a prerequisite to reality. The questions are ? *how much greater will this loss become? How may I protect against further downside? How long if possible, will it take this investment to recover?*• If you?re the unfortunate investor on the other end of this delivery, then here are the questions you should ask your financial partner.

Markets always come back.

Well, it?s a truth. A half-truth, but still a truth. Not that this line is comforting, as it?s going to take precious time and additional capital to return to where you were. But like I said, if you want to play, you?re going to pay. Now the question is ? *?How much do you want to play and pay??*



What if you can cut the time to breakeven in half? Or, even by a third. Wouldn?t it be worth the effort?



As I outlined previously, having a proper allocation, one that isn?t entirely in the stock market by the way, can provide better risk-adjusted returns with less volatility. An allocation decision is usually a smart first step. In addition, the application of simple rules to reduce exposure to stocks as the long-term trend breaks down can shorten portfolio recovery time. That?s one of the reasons you hire a money manager in the first place ? to manage downside risk.

You don?t want to get emotional over your money.

It?s ok to trust your gut. It?s acceptable to be concerned. I give you permission to take charge of your wealth and take a stand if you feel uncomfortable. The more your input is politely ignored, the greater the frequency of phone calls and meetings that result in similar words communicated by your adviser, the stronger the eventual impact, possibly negative it is going to have on your portfolio. All talk no action is not going to help keep your emotions in check. Sometimes, it takes compromise to avoid rash, costly decisions. As markets continue to falter, the longer you are dismissed as being ?emotional,? the greater the ultimate explosion of a building emotional powder keg is going to be. The result will be an all-or-none decision where you?ll demand all stocks liquidated, most likely at or close to the bottom of a negative cycle. In other words, if your financial professional listens, I mean actively listens, and initiates with alacrity some disciplined form of risk protection, even if it?s surgically trimming away the investments which are experiencing the most negative impact (possibly cyclical, emerging market stocks), thus raising cash, the greater the odds you?ll stick with an allocation to stocks through the downturn and ostensibly experience the upswing. I call it selling down to your personal emotional-neutral zone. It may take several surgical strikes depending on the cycle, but hey, that?s better than taking a machete to the portfolio at once, selling everything and then ostensibly, never returning to the market. Be prepared to eventually be on the other side of the desk, listening to the same old advice that cost you to lose a decade of wealth creation. Eventually, a bear will awaken. The brokers will be scrambling, clearing dust off old scripts. Awaiting to minimize your concerns. **And like a bad movie, you?ll get to relive a time you?d rather forget.** Unless you ask the right questions, take a stand, be proactive, and avoid the moldy stench of stale dogma.