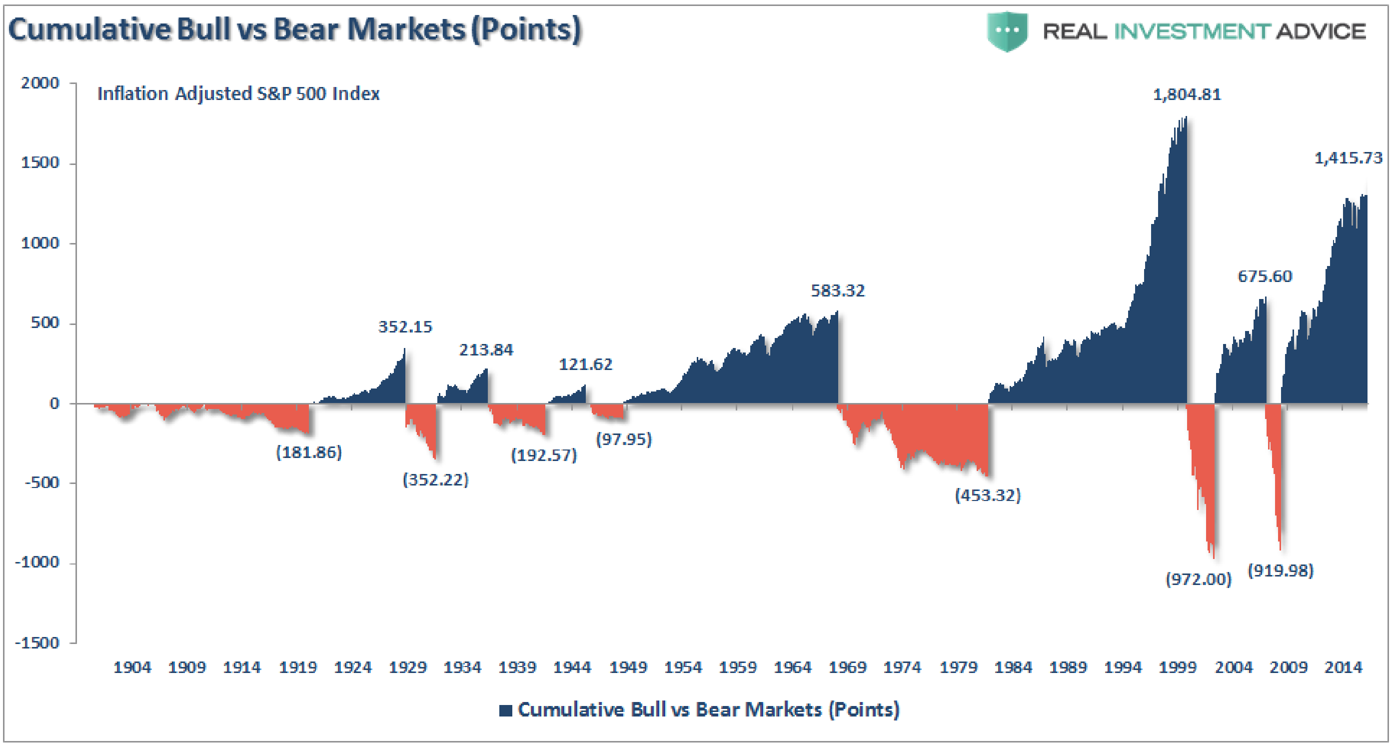
An interesting email hit my desk this morning:

> *"The stock market goes up 80% of the time, so why worry about the declines?"*

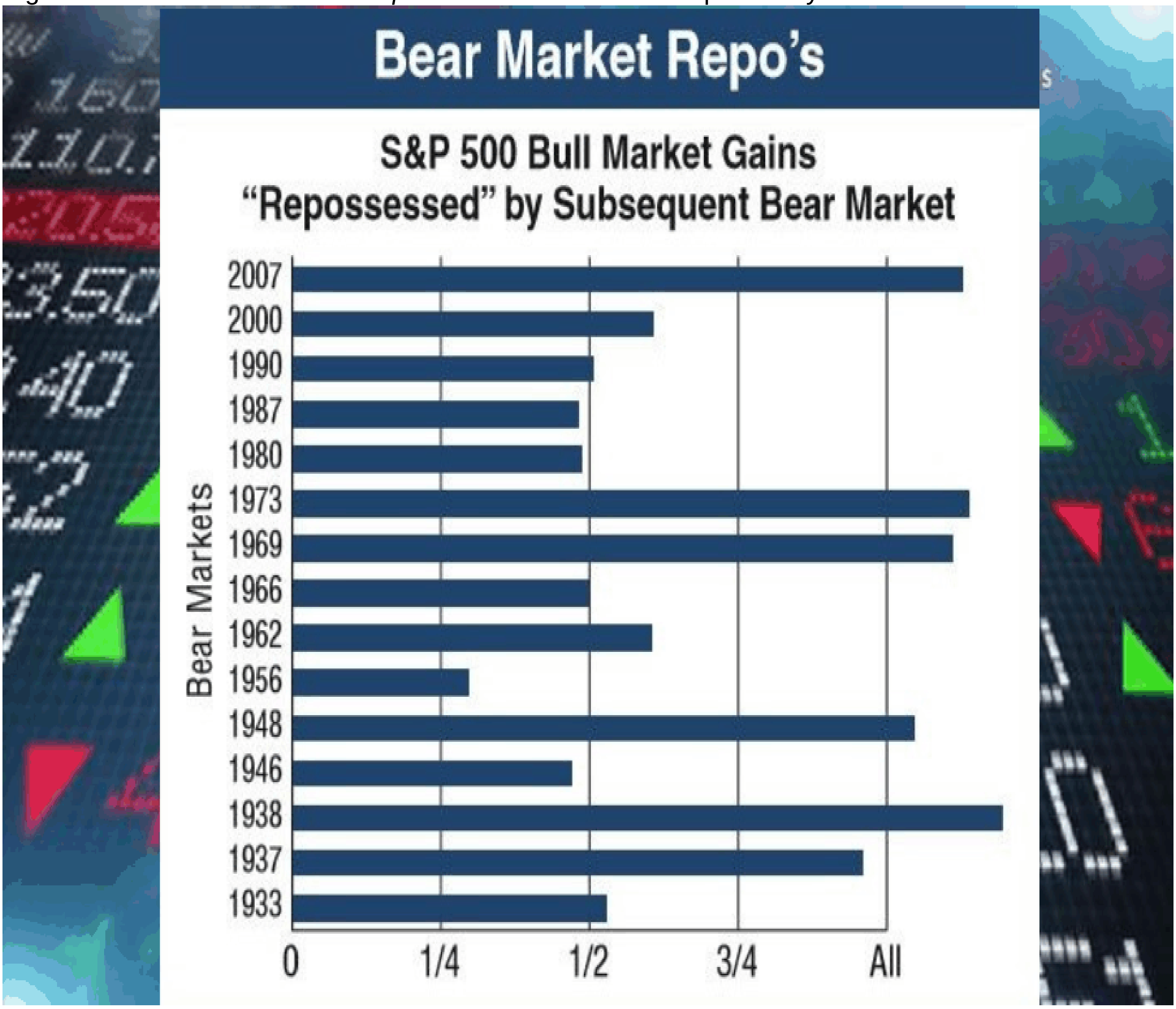
Like a *"bull"* - rising markets tend to be steady, strong and durable. Conversely, *"bear"* markets are fast *"mauling"* events that leave you deeply wounded at best and dead at worst. Yes, the majority of the time the markets are *"bullish."* It's the *"math"* that ultimately gets you during a *"bear"* market. The real devastation caused by *"bear market"* declines are generally misunderstood because they tend to be related in terms of **percentages.** For example:

> *"Over the last 36-months, the market rose by 100%, but has recently dropped by 50%."*

See, nothing to worry as an investor would still be ahead by 50%, right? Nope. A 50% decline wipes out 100% of the previous gain. This is why looking at things in terms of percentages is so misleading. A better way to examine bull and bear markets is in terms of points gained or lost.



Notice that in many cases going back to 1900, a large chunk of the previous gains were wiped out by the subsequent decline. *(A function of valuations and mean reversions.)* Recently Upfina posted a great chart on *"Bear Market Repo's"*•which illustrates this point very well. To wit:



> *"Many confuse bear markets with being black swan events that cannot be predicted, however, this is a faulty approach to investing. The economy, market, and nature itself move in cycles. Neither a bear market nor a bull market last forever and are actually the result of one another.* ***That is to say, a bear market is the author of a bull market and a bull market is an author of a bear market. Low valuations lead to increased demand, and high valuations lead to less demand."***

The only point I am attempting to make today is don't *"confuse the math."*•A 30-50% decline from any level in the market is destructive not only to your current principal value both also your financial goals particularly as it relates to you investing time horizon. Time is the only thing we can't get back. As Upfina concludes:

> ***"The critical discipline to protect your portfolio through bull and bear markets is hedging.*** *Hedging is when you start a position to avoid the risk of another position.•The keyword when it comes to investing with the goal of minimizing risk is correlation.* ***You want to buy assets with a low correlation to diversify against bear markets. A few investments which typically do well in bear markets are cash, long-term U.S. treasuries,*** *the volatility index, gold, shorting the stock market, shorting high yield bonds, and buying safe sectors such as telecommunications and utilities."*

With everyone seemingly bearish on bonds and the dollar, and bullish on equities and oil, the contrarian in me thinks•*"hedging"* against the *"crowd"* might be something worth considering. Such *"hedges"* could well be the ticket to minimizing the next *"bear market repo."* Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Legalizing Gambling Won't Fix Budgets**•by Steven Malanga via City Journal
- **Will The Fed Know When To Quit?** by Caroline Baum via MarketWatch
- **3-Reasons To Expect A Recession Soon** by Pierre Lemieux via Econlog
- **Fed About To Look At Boosting Economy In A Radical Way**•by Pedro Da Costa via BI
- **When Companies Supersize, Paychecks Shrink**•by Bryce Covert via NYT
- **Is "Goldilocks" Back?**•by Brian Maher via The Daily Reckoning
- **Wealth Causes Homelessness?**•by Alex Berezow via American Council On Health & Science
- **Managing Risks Of Rising Dollar**•by Mohamed El-Erian via Project Syndicate
- **Economic Numbers Less Than Meets The Eye**•by James Rickards via The Daily Reckoning
- **Is 1.8% Economic Growth All We Should Expect**•by Alan Reynolds via IBD

Markets

- **What Is Magic Number For Yields?**•by Tyler Durden via ZeroHedge
- **Fed Tightening Cycles Coincide With Crashes**•by Mike "Mish" Shedlock via MishTalk.com
- **Morgan Stanley Knows When Bull Ends**•by Matt Egan via CNN Money
- **Spoiled Rotten: Too Many Funds & ETF's?**•by Simon Constable via Forbes
- **Dan Niles: Stocks Could Lose 50% Next Year**•by Stephanie Landsman via CNBC
- **Stocks Down 20% By Time Yield Hits 4%**•by Brian Sozzi via TheStreet.com
- **Why The Market Has Its Swagger Back**•by Mark DeCambre via MarketWatch
- **Prepare Your Portfolio For Recession**•by Edward Harrison via Credit Writedowns

- **Making Money In Stocks Is Going To Get Difficult** by Ryan Vlastelica via MarketWatch
- **No, The Market Isn't Overvalued** by Ed Yardeni via Yardeni Research
- **Trump Wants To Roll Back Regulations Meant To Prevent A Crisis** by Joe Ciolli via BI
- **A Record Number Of People Think Home Prices Will Rise** by Akin Oyedele via BI

Most Read On RIA

- **Retiree's Face A Pension Crisis Of Their Own** by Lance Roberts
- **Don't Be A Victim Of Recency Bias** by John Coumarionos
- **The Inconsistencies Lurking In ETF's** by Michael Lebowitz
- **No Strategy Works All The Time, 10-Rules That Do** by Lance Roberts
- **The Greatest Financial Mismatches In History** by Richard Rosso
- **Kass: The Madness Of Investing Crowds** by Doug Kass

Research•/ Interesting•Reads

- **Stock Buybacks Soar To Record** by Wolf Richter via Wolf Street
- **Subprime Chaos & It's Worse Than 2008** by Adem Tumerkan via Palisade Research
- **Stupidity And Greed Will Keep Financial Journalist Employed** by Steve Sedgwick via CNBC
- **Want To Make Millennials Mad, Talk About Retirement Saving** by Alessandra Malito via MarketWatch
- **Is The U.S. Becoming Japan 2.0** by Upfina
- **U.S. Health Care Is Finally Fixed** by Charles Hugh Smith of Two Minds
- **Debt Service Is A Function Of Rates & Amount Owed** by Danielle Park via JugglingDynamite.com
- **Subscriptions For The 1%** by Danny Crichton via Tech Crunch
- **GDP Linked Bonds?** by Robert Shiller via NYT
- **The Great Recession vs. The Great Depression** by Alex Pollock via Real Clear Markets

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?Love risk when making money. Hate risk when investing money.?•?•Robert Rolih

Questions, comments, suggestions ? please email me.