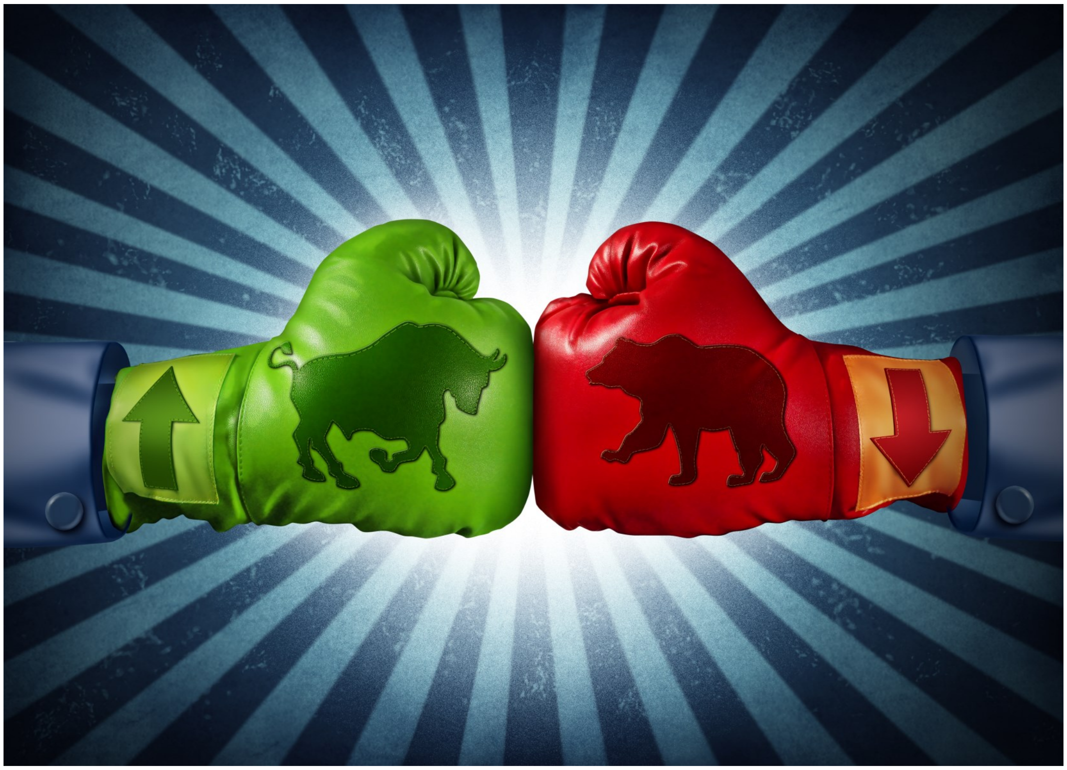

Bears Vs Bulls

Which Is Which?

By

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Bears vs Bulls – Which is Which?

There are two things about the stock market that you can count on:

1. The market will go up.
2. The market will go down.

Market movements happen all the time – day in and day out, week in and week out. It goes without saying that volatility is a fact of life with investing. The interesting thing about the word "volatility" is that it seems to be only applied when the market goes DOWN. If the market drops 1,000 points, it is considered volatile – if it goes up 1,000 points, it's not.

So what is a bull market? What is a bear market?

The symbol of the stock market is a bull and a bear fighting it out. An easy way to keep them straight is by knowing their fighting styles. A bull attacks by lifting its head and horns UP. A bear swipes its claws DOWN. Likewise, a bull market is when the market is going UP – a bear market is when it is going DOWN.

With the market moving up and down every second of the trading day, how does one know if the market is bull or bear? Is the market a bull market one second and a bear market the next?

The general definition of a bear market is when stocks drop by 20%. To put it in perspective, the Dow Jones Industrial Average (the DOW) closed out New Year's Eve of 2014 at 17,823. A 20% drop would be 3,500 points! (For purposes of this article, I will use the DOW as a benchmark since it is the most familiar and widely cited index). In the past 50 years, there have been 9 such corrections – approximately every 5 years. The last bear market was in 2008-2009.

What about declines of less than 20%? A downturn of less than 20% is generally considered a "correction". It goes without saying that "corrections" happen all the time – even in a bull market. For instance, a 10% correction has happened 33 times in the last 50 years – or about every 18 months. 5% corrections happen even more frequently - 127 times during the last 50 years – or about twice a year.[i] These corrections are normal market noise and should be expected.

However, this market noise can be difficult for investors to take. For instance, if you invest $100,000 in July and three months later your portfolio drops to $95,000, it's easy to picture that trend continuing until you have run out of money. Therefore, it's vitally important to realize that if you invest in the market you will see corrections happen ALL of the time.

The second thing to remember is the difference between point drops and percentage drops. If you began investing 30 years ago, the Dow was at about 1,200. A 300 point drop in the index was a 25% decline. Today a 300 point drop is a 2% decline. Same point drop – but a big percentage difference.

So, how do you cope with the inevitability of market declines?

Step 1 – Ensure that your income needs are secure. It's easier to stomach market losses when you are working than after retirement. When you are approaching retirement, make sure that your basic living expenses are covered by reliable income sources such as pensions, social security and annuities. This way you don't need to worry about pulling money for living expenses from accounts that have lost money in a bear market.

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Step 2 – Imagine that your portfolio is 20% less than it is now. If you have a $100,000 portfolio, how would you feel if it dropped to $80,000?   Since bear markets happen on a regular basis, if you can't sleep if you incur a 20% loss, you need to reconsider your investing options and meet with your advisor to discuss more conservative options.

Step 3 – Make sure that you have liquid cash in the bank. If you have an emergency during a bear market and need cash, you don't want to have to sell already depressed assets to cover those expenses.

And finally, look ahead – not behind. The phrase "if only" is one of the most dangerous ones in the English language. Don't beat yourself up for the past; plan for the future. Nobody's perfect. Everybody makes mistakes. Learn from them and make corrections if necessary. Retirement should be a time to enjoy the fruits of your years of hard work, and spend time with family, friends, travel and hobbies.

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Teresa Bear specializes in retirement planning and asset preservation for retirees and their loved ones. Teresa works primarily in the Phoenix Metro area and has offices in Mesa and Chandler.

Teresa has been helping families and retirees reach their financial, tax, retirement planning, and estate planning goals for over 25 years. She is legally bound to uphold the highest level of fiduciary standards when providing investment advice to her clients.

Author of the book, S*he Retired Happily Ever After*, Teresa is committed to educating clients and assisting them in reaching their financial goals.

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[i] http://www.americansuperior.com/bear.htm