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STAY THE COURSE

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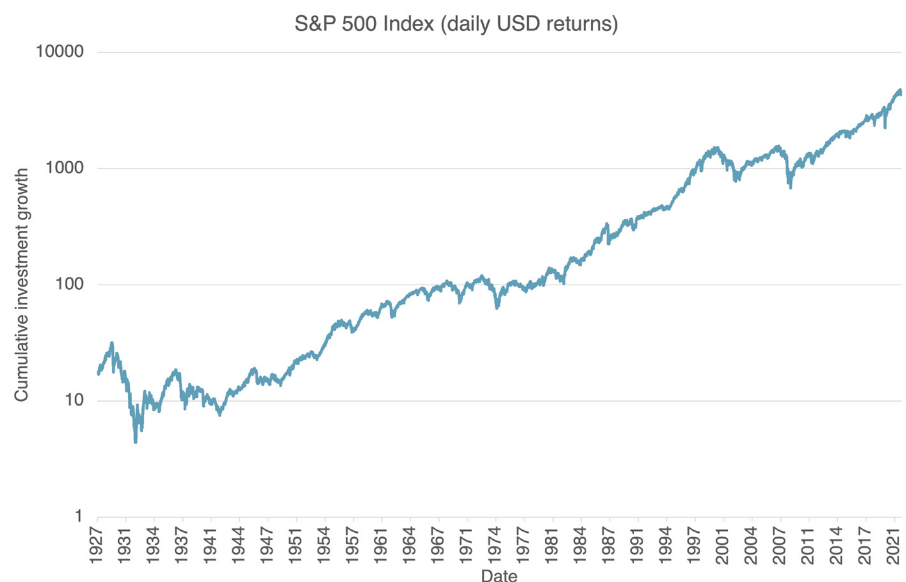
Bear markets – 'til bull do we part

...markets are a lot more efficient...

Bear markets are defined as the market falling by 20% or more. While equity markets are upward trending and are expected to provide good real returns over the long-term, we know that this can be a bumpy ride. As investors, while we typically acknowledge this volatility upfront, when markets are falling, we all get a bit uncomfortable. This is fully understandable and rather common, so the question is how do we help ourselves remain disciplined when there is the proverbial 'blood on the street'? We need to remind ourselves that market selloffs and specifically bear markets are firstly, fairly prevalent, and secondly, not everlasting.

Bear season comes around more often than you think!

Bear markets occur more regularly than most of us probably notice or would like to remember. Looking at the S&P500, where we have reliable long-term market performance history, we see that the US equity market has fallen by more than 20%, 26 times since 1928. Yes, you read that correctly... TWENTY-SIX bear markets. That said, equity markets have risen significantly over this period, as can be seen in the chart below:



Data source: Yahoo Finance; data period: 30 December 1927-18 February 2022

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...no short cuts to long-term financial security...

These market selloffs have ranged from -20.6% in 1948/49 to as extreme as -61.8% in 1931/32. While these numbers are unsettling, it is important to realise that many bear markets are short-lived, and bear markets are in general dramatically shorter than their bullish brothers.

How long do we need to bear the bear?

If we look to the time horizon, the shortest bear market was the Covid-19 pandemic selloff, spanning a mere 33 days during February and March 2020. The longest was 630 days in 1973/74 – over 20 months. On average, bear markets last for less than a year, and in comparison, the average bull market is 2.7 years long. That said, it appears that with technological developments, markets are a lot more efficient, resulting in information being priced in quicker as well as central banks responding more efficiently.

Helping you to cage the bear

With this insight into markets, the important thing is to remember to focus on what matters. Yes, bear markets happen quite regularly, and yes, markets can fall extensively (and sometimes fast). But equally so, they bounce back up, and have over the past 93 years been up almost four times as often as they have been down. You will have heard from market commentators, professional investors, and your financial advisor that you cannot time the market – never trust anyone who says they can. Therefore, while bear markets occur regularly, if markets are up more often than down, and typically rise by more than they fall, the inside scoop is to remain invested. In times of stress, consult your financial advisor, remind yourself of your goals and then stick to the plan. There are no short cuts to long-term financial security, so don't go hunting for them as it will only turn out to be a wild goose chase.

Maintain your course, stay invested.

Source: Hartford Funds article

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AFFINITY CAPITAL MANAGEMENT

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