Informed Investor Series

A Bear Market Twist

White Paper

The **Informed Investor Series** explores how better understanding markets may help you to make the most informed investment decisions possible.

The **A Bear Market Twist** white paper explores how for the long-term investor, stocks have historically provided rewards that we believe justify the volatility they exhibit. And, in periods of declining markets, the courage and discipline it takes to run to the bear and not away from it, may be just what is needed to develop wealth.

For the long-term investor, stocks have historically provided rewards we believe justify the volatility they exhibit.

Simply put, volatility is when the stock market goes up one day, and then goes down the next. When the market is up more than it is down, that is generally referred to as a Bull Market. When the market is down more than it is up, that is generally referred to as a Bear Market. However, the one factor both a bull and bear market has in common is volatility – the market going up and the market going down.

At times, the media may use the word volatility as a way of expressing investors' nervousness in a bear market. The media may imply that volatility is a problem-something to avoid.

However, we believe that volatility may be used to an investor's advantage, if the investor is willing to employ both discipline and courage, particularly in a bear market.

We studied the S&P 500 over the last 25 years ending April 30, 2015. This period would encompass the following:

- The bear market of the early 1990's.
- The bull market in the late 1990s.
- The negative –(37.59%) return for the S&P 500 in 2000, 2001 and 2002.
- The positive years for the S&P 500 in 2003, 2004, 2005, 2006 and 2007.
- The second worst market decline in the S&P 500 history in 2008 and early 2009.
- The subsequent bull market that followed after March 9, 2009.

Suffice it to say, this period does not lack volatility.

What if we had developed an investment approach during that 25-year period that included a twist that could possibly take advantage of a bear market?

First, what if 25 years ago we hypothetically placed $25,000 in an investment that was able to generate the returns of the S&P 500?

Next, what if we decided to pay ourselves first each month by establishing a systematic investment program of $500 a month? This is where you would need the discipline to stick with this strategy each month and the courage to keep the strategy going even when the market is down.

Now here is the *bear market twist*.

What if we placed an additional $2,500 into the stock market each time the S&P 500 was down by 8%? This happened 18 times over the last 25 years.[1]

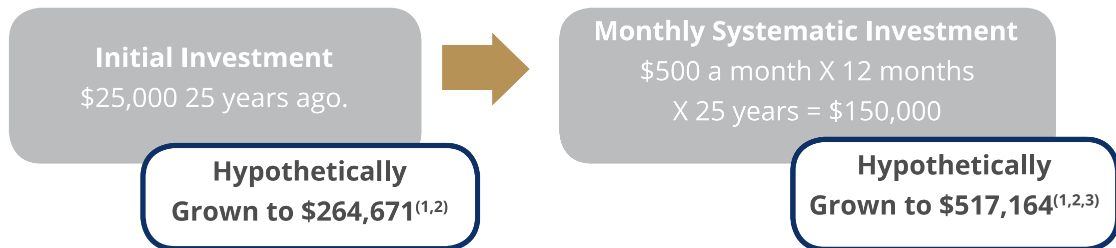
How might you have done using the three-pronged strategy including the bear market twist?

Hypothetically, for the 25-year period from April 30, 1990 to April 30, 2015, before taxes are taken into account, you would be a millionaire.[(1)]

Hypothetically, the intial $25,000 would have grown to $267,671 , which represents a 9.95% annualized rate of return.[1]

Had we had the discipline to invest $500 a month and the courage to continue to do so even in bear markets, we would have invested $150,000 ($500 a month X 12 months X 25 years). This would have hypothetically grown to $517,164, which represents a 6.88% annualized rate of return.[1]

Part of the reason for this growth is that by you having the discipline to invest each month and the courage to continue regardless of the direction of the stock market, we would have been able to take advantage of the



volatility of the market. As such, we would have bought fewer shares at higher prices during the bull market and more shares at lower prices in the bear market.

The final piece of the bear market twist is where we invest $2,500 each time the S&P 500 was down 8%. This happened 57 times in the 25 year period. Had we the courage to stick with this strategy, we would have invested a total of $142,500 ($2,500 X 18). That $142,500 would have grown to $435,300 , which represents a 9.24% annualized rate of return.[1]

Hypothetically, in total you would have invested $317,500 over this 25-year period ($25,000 initial investment + $150,000 systematic investing + $142,500 bear market twist) and it would have grown to what we consider to be a remarkable $1,220,135![1]

One of the keys of finding the money to invest may be working with a financial advisor who can help you view your investment portfolio holistically, including your IRAs, 401(K)s, and non-qualified investments, and who can also help establish a systematic investment plan for you.

Naturally, there are no guarantees that these investment results can be achieved and past performance is never an indication of future results, but perhaps in periods of declining markets, running to the bear and not away from the bear, may be the courage and discipline needed to possibly develop wealth.

Disclosures

[1] Source: Bloomberg and Dunham & Associates

[2] S&P 500 4/30/1990 – 4/30/2015: 6.88% Annualized

[3] $500.00 per month 4/30/1990 – 4/30/2015: 6.88% Annualized

[4] $2,500.00 57 times 8/6/1990 – 4/30/2015: 9.24% Annualized

[5] Facts on File

Investments are subject to risks, including possible loss of principal. Investors should consider the investment objectives, risk factors and expenses of any investment carefully before investing. Diversification does not guarantee profit or ensure against loss.

The S&P 500, or the Standard & Poor's 500, is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices. It differs from other U.S. stock market indices, such as the Dow Jones Industrial Average or the Nasdaq Composite index, because of its diverse constituency and weighting methodology. It is one of the most commonly followed equity indices, and many consider it one of the best representations of the U.S. stock market, and a bellwether for the U.S. economy.

All examples are hypothetical and are for illustrative purposes only. We encourage you to seek personalized advice from qualified professionals regarding all personal finance issues. The solution for an investor depends on their and their family's unique circumstances and objectives.

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