



January 2, 2009

As 2009 begins, it is important to remember that our current bear market is not an unusual event. Bear markets come and bear markets go. The bear market of 2008 feels different because the set of circumstances surrounding the market downturn are, in fact, unique: a housing bubble and mortgage collapse, credit markets' paralysis, and consumer spending freeze. Because these *triggers* are different than in previous bear markets, many conclude that the 2008 bear market and economy are "different this time." The important thing to remember is that no matter how we get thrust into bear markets or economic reversals, they are natural elements in the great waves of our economic and market cycle.

Here are four important things to remember about bear markets:

- 1. Bear markets are a natural part of a long economic and market cycle.** In the short term, economies tend to grow beyond what is sustainable over the long haul. In projecting current results into the future, business owners and investors in those same businesses, get a bit giddy. Thinking that the good times can only get better, businesses aggressively expand and investors jump on board in anticipation of business success. The day of reckoning always comes – for different reasons – and we call it a recession or bear market.
- 2. Bear markets are common.** Since 1945, there have been 13 bear markets, as defined as a peak-to-trough decline of 20 percent in the stock market. On average, that's one bear market every five years.
- 3. Bear markets are relatively brief interruptions in a long-term continuing uptrend in the markets.** In May 1946, the S&P 500 Index sat at 19.30. Thirteen bear markets later, the S&P 500 Index is 65 times higher. That's an upward trend.
- 4. Volatility is good.** It may sound bizarre, but market volatility (i.e., the unpredictable pattern of returns from the stock market) is why stocks reward investors with a *premium* return on their investment. That *premium* is earned by the additional risk that investors take on in committing their capital to equities. By removing volatility, investors give up that additional risk and forfeit the premium. Therefore, volatility is good, and you just have to be patient and talk to your financial advisor about your appropriate level of risk tolerance.

At best, 2008 has been a sobering experience for all investors, but it is nothing out of the ordinary. With faith in the future of our economy and markets, we can confidently remain

dedicated investors and look ahead to 2009 and a brighter future. Now is a good time to review 2008 and place it into the proper perspective of your long-term objectives and your ability to honor the important promises you make in life. Call us today at 508-678-4844 to schedule your wealth management review and we'll help you stay on track.

Sincerely,

John A. Varao, CFP
Financial Advisor