

 **The Blue Summit Report**

**How to Survive a Bear Market**  
**"Armchair Quarterback" Analysis**

I thought you would all appreciate this "armchair quarterback" analysis, done by a colleague in Cincinnati, OH, charting the mood swings during the 4th quarter of 2008 and its remarkably awful, three-month market run, which has continued into the first quarter of 2009. See table below:

Start Date	End Date	# of Business Days	% Gain or Loss	Play by Play Narrative
09/15	09/19	5	4.51%	
09/22	10/10	15	-27.36%	"What is happening? Should we get out? Will it bounce"
10/13	10/13	1	10.28%	"Okay, there is hope after all!"
10/14	10/15	2	-10.03%	"Maybe not..."
10/16	10/20	3	8.77%	"Is it okay today?"
10/21	10/27	5	-14.15%	"Here we go again. Should we sell?"
10/28	11/04	6	18.72%	"Never mind. It will be okay."
11/05	11/20	12	-24.50%	Wait a minute, I can't take this anymore!"
11/21	11/28	6	18.59%	"I'm glad I didn't sell last
12/1	12/1	1	-8.74%	"What will tomorrow bring?"
12/2	12/31	22	9.81%	"Looks like we're back on
		78		



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Think of this as taking a chart of the stock market's volatility over the last 4 months of the year, and holding a piece of paper over all but the previous periodic movement. Then based on that day's shift, make a call on what to do with your money, moving the piece of paper from left to right, making day-by-day calls with each tick.

Would this approach, making daily decisions based on short-term price movements, have been helpful to the long-term health of your portfolio? Do you feel this is the way to create long term wealth?

Many people think there are "experts" who got people out of stocks before the real meltdown. It is the unfortunate reality however that these same advisors who get you out of the market during bad times, usually remain too fearful to get you back into the market in time to benefit from the recovery.

As I have said before, the time to get back into investments is at the point of maximum fear, when there is blood in the streets, and that time is coming, if not here.

Waiting out a bear market in cash sounds like a great idea but, without a crystal ball, it is among the worst possible investment strategies. Investment gains are made in just a few days out of the year. Keeping in mind that past performance is not indicative of future returns, another study (this one by consulting firm SEI in 2002) highlighting the 12 bear markets since World War II, shows that investors who cashed out during a bear market and waited until the market "recovered" before getting back in, jumped in too late and lost out on double digit gains. Investors who held on through the downturn, gained an average of 32.5% in the first year following the market's recovery. Investors who jumped back into the market just 3 months late, gave up over 17% of the market's gains and it took them an additional 1 1/2 years to recoup their losses.

Investors Who:	Gains After 1 Year	Broke Even After
Rhode the market down & back up	32.50%	1.5 Years
Jumped back in 1 week too late	24.30%	2.5 Years
Jumped back in 3 months too	14.80%	3.0 Years

This bear market will end, and it will do so when we least expect it. Remember, recoveries are only labeled thus in hindsight. By the time the headlines scream 'recovery,' it's too late -- investors who do not reinvest will have missed out. Worse yet, they will have made the classic investing mistake of "sell low and buy high."

What has become very apparent to me throughout this mess is the absolutely essential value of a "financial plan". This is our roadmap that we have developed with you, our client. This is supposed to reflect your values, take into account goals and lifestyle needs, and consider the case of emergencies or disasters along the way; whether it is a worldwide financial meltdown, a sudden illness, a catastrophic weather related incident, a job loss, the collapse of a company or industry, etc. So far our financial plans are working. It is vital to know that you have your base protected so that the markets will not force you into a lifestyle change.

Towards this end, for some of our clients, we have been supplementing or exchanging stock portfolios into lifetime and/or fixed annuities in order to lock in income needs we have determined you have. For others we have adjusted your allocations and for some of you, you are buying into stocks now at these lower prices. This way you will be well-positioned for the eventual market upturn, which oftentimes can come fast and furiously and catch us by surprise.

In addition and as part of the financial planning process, it's vital to assess your spending patterns. Ever since the first credit card in 1950, the Diner's Club card, our society has become accustomed to buying things they can't really afford.

And so our culture of over-spending and over-consuming that has fueled our economy is part of what has created this economic downturn and is the current fact that millions of people are now reforming their spending habits. Our economy has been heavily dependent on consumer spending, and every economic stimulus package is passed in hopes that taxpayers will spend every dime of it rather than pay down their debt. This is short-sighted and, in my opinion, does not address the more fundamental issue at hand.

It seems to me that our economy has to find a solution to this dilemma:

*The behavior that is good for the consumer is bad for the corporate world.  
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This conflict of interest, which is currently built into the fabric of our economy, will need to be resolved. The fact that people are re-setting their priorities and moving further away from a wasteful economy will in the long run be a good thing for people and the planet overall.

We look forward to continuing to assist you in the ongoing development and refinement of your personal financial plan, monitoring of your investment portfolios, and guidance in weathering this bear market intact.

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