

FIVE BEAR MARKET LESSONS

While each bear market has its own unique characteristics, the lessons we learn, and the principles we develop from them, never change. These principles form the foundation of our firm's investment advice. This might be an appropriate time to reflect on some of the most important lessons we can learn from experiencing one of history's worst bear markets.

1 The best time to prepare for a bear market is before it strikes.

Bear markets begin and end without warning. Since you can't predict them – you must prepare. Your best defense is to own quality investments that have the potential to bounce back once the bear market ends. However, the outlook for even quality investments can change. That's why an appropriate level of diversification is also important.

You should have realistic expectations before you invest. Bear markets occur frequently and are a normal part of the investing process. We've experienced 32 bear market declines of 20% or more since 1900. Six of those declines (including the latest) were "waterfall" declines of about 50%. Below are some bear market principles to help you prepare:

- The four most dangerous words are "This time is different." The three best words are: Stay the course.
- Stock market declines are normal and frequent. They're not a reason to sell quality investments.
- Bear markets are typically short and historically have been followed by bull markets.
- Bear markets can offer an opportunity to buy quality investments at lower prices.
- Don't own investments today that you wouldn't want to own in a bear market tomorrow.

As a long-term investor, the difference between success and failure may be determined by your actions during a stock market decline.

2 History usually repeats, but it doesn't always rhyme.

We often use historical examples to illustrate a point, but some bear markets aren't average. Some are worse. The 10-year period that ended on Dec. 31, 2008, was the worst 10-year period for the stock market since 1926. But long stretches of poor performance are often followed by prolonged periods of good performance. The 12 worst 10-year rolling periods for the stock market since 1926 were each followed by 10-year periods with returns that averaged better than 13%.* Past performance may not be an indication of future results, but that's a lot of history to bet against.

3 Investing isn't as easy as buying when you feel good and selling when you feel bad.

Many investors overestimate their tolerance for risk when the market is rising. They invest too much of their portfolio in stocks, then want to sell after the market falls. The ideal mix of investments is the one that can help you reach your long-term goals and that you can stick with in good times and bad. An investment professional can play a vital role in helping you assess your true risk tolerance.

4 Base your investment decisions on investment principles, not predictions.

We believe the three most important principles are:

- Focusing on quality investments
- Diversifying your portfolio
- Maintaining a long-term perspective

Diversification can help reduce risk when the market and/or economy don't perform as you expected. The less confident you are in people's predictions about the market, the more diversified your portfolio should be. Most investors may need 25 stocks and 10 or more bonds to appropriately diversify if individual securities are the core of a portfolio.

5 The best way to survive a crisis is to have a strategy and stick to it.

It's often said asset allocation can determine as much as 90% of your investment return's variability. However, for investors who jump into and out of the market, or who aren't appropriately diversified, this isn't true. For these investors, market timing and poor security selection may account for 100% of their return.

It's important to develop a strategy now. Doing so can help answer the questions most investors will ask:

1. What is my strategy?
2. Am I on track?
3. How much money will I have to spend in retirement?
4. What can go wrong?
5. Who can help me?

In addition, an appropriate strategy takes steps to protect against the unexpected:

Unexpected Events	Potential Solutions
Rising Rates/Falling Market	Short-term Income Investments
Falling Rates	Reliable Income Investments (bonds)
Long-term Inflation	Rising Income Investments (stocks)
The Risk of Something Happening to You:	
Disability	Disability Insurance
Illness	Health Insurance
Car Accident	Auto Insurance
Nursing Home Care	Long-term Care Insurance
Living Longer Than Expected	Annuities
Premature Death	Estate Planning, Life Insurance

Your financial advisor is well-positioned to provide solutions to each of these problems. Schedule some time to discuss your overall investment strategy and how you can better prepare your portfolio for whatever the market and economy may bring.

*S&P 500 includes reinvested dividends. The S&P 500 is an unmanaged index and is unavailable for direct investment. Diversification doesn't guarantee a profit or protect against loss. Past performance is not an indication of future results.

