

# CSA Wealth Management, LLC

729 Country Place Rd.  
Axton, Virginia 24054



email [cindi@csawm.com](mailto:cindi@csawm.com)  
[www.csawealthmanagement.com](http://www.csawealthmanagement.com)

(276) 634-0000 toll free (866) 634-0018  
Fax (276) 634-5100

## BEAR MARKETS

October 27, 2008

Why do they call them bull markets and bear markets? The story that I have been told is that a bull, when attacking, puts his head down and tosses you UP into the air. So a rising market is referred to as a bull market. A bear, on the other hand, stands up and smacks you DOWN. Mangles and claws you a little bit, too. By definition, it counts as a bear market any time that the averages fall 20% or more from a previous peak.

Bull markets are a lot more fun. They reward investors for the risks they take in providing capital for business expansion. It begins when someone has a new idea or an improvement on an old idea. In order to convert this idea into reality, a certain amount of capital is required for producing, marketing, selling and delivering the product. Those who provide that capital get to share in the ongoing success of the business if it succeeds or they lose their capital if the idea fails. The earlier in the cycle that an investor gets involved, the more clearly this sharing in the fate of the company is understood.

The successful companies understand what their customer, their employees, and their investors want from them. They also understand how their competitors and the regulatory environment will aid or hinder their ability to deliver those results. The better they understand and address these factors and utilize them in their business plans, the more successful they and their investors become. The bull market grows as an increasing number of companies demonstrate these successes and investors bubble over with enthusiasm for the future.

Bull markets die when this enthusiasm morphs into greed, marked by the demand for *performance*. Companies and their leaders are gradually expected to produce quarterly profits at ever higher rates. Missing these expectations eventually becomes unacceptable. Prices for the stock are expected to grow at a faster pace than any other available investment, and they are expected to do that first on an annual basis, then on a quarterly basis, and finally on a daily basis. Once expectations move to these extreme, unrealistic levels, the bubbles pop and the bull market ends. (Note that this applies to bull markets in *any* asset, including real estate, commodities, stocks, bonds, art, and beanie babies.)

Once the bull market ends, we get a bear market in its place. Bear markets are a lot less fun. They are characterized by FEAR. People immersed in bubbles have trained themselves to believe that prices can only go up. Once a person begins to think in terms of absolutes like this, they have set themselves up for a panicky failure. They begin to believe there is only good or bad, profit or loss, win or lose, up to the heavens or down to zero. There is no middle ground or in-between.

When something one believes can't go down suddenly *does* go down, the shocked first reaction is that it must be some horrible mistake. Paralysis sets in. This can't be true. It just can't happen! When the price continues to fall, the only thought left is that it must have lost *all* value and will now go down to zero. The fear that this generates is massive. Paralysis is replaced by frantic selling at any price before zero is hit. This fear is only gradually eased as realization sets in that it was the "absolute" judgment that was faulty, rather than the investment. Just as it had an upper value that

should not have been exceeded, it also has a lower value that should not have been breached. More level heads move in to take advantage of these unrealistically low values and scoop up the bargains presented by panicky sellers. The bear market ends in this way.

Every bear market that I have ever seen, and in my day I have seen a lot of them, makes most people feel a bit foolish for not having seen what, in hindsight, seems so obvious. Home prices do not rise on a daily basis and they absolutely do not move in only one direction. People who borrow money that they know they can't pay back do *not* pay it back. Putting up one dollar of capital and borrowing an additional \$50 is not sound financial management. A Congress who passes nutty laws will get nutty results.

But do bear markets do us any good? Absolutely. They play a vital role. Bull markets make us the money but bear markets teach us what we have to do to make, and then *keep* the money. It is said that bear markets return stocks to their rightful owners, and I find I agree. It takes stocks away from those who cannot comprehend that they are actual ownership of real businesses rather than chips in a casino, and puts them back into the hands of people who do understand this.

But there is something else about bear markets that I want to talk about that I never see discussed. Bear markets separate one kind of economy from another. When I started in this business in 1982, every portfolio I saw was loaded with banks, utilities, ATT, autos, tobacco, oil companies and basic materials used in road building and the development of suburbs. These were the companies best able to succeed in an economy defined by the punitive inflation, interest and tax rates of the sixties and the seventies.

But the new economy beginning to emerge was all about low taxes, low inflation, and reduced regulation. It spurred massive innovation and investment in computers, telecommunication, health technologies, and the development of the internet. This new economy lasted for eighteen years. Enormous profits were made by those who shifted their investments into these areas. Investors who continued to hold the winners from the previous economies did not do nearly as well.

In 2000, the emerging bear market let us know it was time to move on once again. It was time to move into finance, commodities, and the real estate and home building boom. Those who did made money. Most of those who did not are still waiting for their accounts to return to values last seen in 2000.

This bear market is no different. Its gift to us is letting us know that it is time to move on. The time for investing in real estate, home building, commodities, and finance is over for a while. A new kind of economy is emerging and that is where we need to be.

It is virtually certain that the regulatory environment will be substantially altered, that the use of leverage will be greatly curtailed, and that the tax structure will be changed again. Entitlement programs are likely to see even further expansion. The companies able to succeed in this new environment will be different from those able to succeed in other environments and it is those companies we will need to own. The key is to be alert, detect them as they emerge, and leave the rest behind.

Cindi Showalter

No investment advice is offered or intended for anyone not a client of CSA Wealth Management, LLC.

These are thoughts and opinions subject to change in whole or part at any time without notice

The information contained herein has been obtained from sources believed to be reliable but the accuracy of the information cannot be guaranteed.