Client's Corner

We're in a Bear Market. You Need to Ask Yourself One Question.

AS I WRITE, ON THE JUNETEENTH NATIONAL HOLIDAY, THE markets are closed.

Last Thursday, for the fifth time in seven trading days, 90% of the stocks in the Standard & Poor's 500-Stock Index closed lower. The Index itself closed down 23.5% from its January 3 all-time high. By any measure—and by anyone's definition of the term—we are in a howling bear market. And with good reason.

The level of near-term economic uncertainty seems astronomical. Both of the most feared outcomes are bad. Yet if we avoid one, we risk running smack into the other. Either (1) inflation continues to rage at unacceptably high levels, destroying the purchasing power of Americans' trillions of dollars in retirement savings. Or (2) the Federal Reserve, scrambling belatedly to stamp out the inflationary fire, plunges the economy into recession.

This after 30 months of relentless economic, financial and political upheaval: a hundred-year global pandemic, in its successive deadly variants. A bitterly partisan presidential election which didn't end on Election Day. Massive supply-chain issues, including inexplicable shortages of that most basic building block of modernity, the semiconductor. A forty-year surge in gasoline, food and industrial materials prices. War in Ukraine, concerning which the Russian dictator appeared to threaten the use of nuclear weapons. Interest rates spiking. Consumer confidence near all-time lows.

Never mind that, at its January 3 peak (4,797), the S&P 500 had gone up seven times from its March 2009 closing low (677) in the Global Financial Crisis. A septupling of mainstream equity values in just under 13 years represents one of the great market advances of all time. (You didn't ask, but the average annual compound rate of growth during this run was 17.5%, versus the long-term average of 10.5%).

Yet all that seems to matter these days is that the market is down nearly a quarter from its most recent peak, with no end in sight. That's what happens to people in a bear market: they lose whatever long-term perspective they might briefly have had.

There's a potential remedy for this loss of perspective, and it begins with remembering that what we're supposed to be investing for is not the near-term prices of ***stocks***, but the long-term values of ***companies***. This is the first step in escaping the maelstrom of hysterical noise that threatens to engulf us in sheer terror at times like this. Once more, with feeling: ***not stocks. Companies.***

The second step is to turn off the television, log out of your market news feed, and make the time to look seriously at the list of the ***companies*** in the S&P 500. You will probably recognize most if not quite all of the names. And you will begin to remember what you always knew: that these ***companies*** are among the largest, most strongly financed, best managed and most innovative businesses in the world.

Many, indeed, are iconic brands whose products or services you and your family use regularly—some as often as every day. As an exercise, put a check mark next to each of these names. As you do, ask yourself if you're planning to stop patronizing these ***companies***. When for the most part you conclude that you're not—and suspect that most other people won't either—you'll have taken the third step.

Having done so, you're now prepared to ask yourself the one absolutely critical question, the answer to which (a) should be pretty obvious, and (b) may just be enough to get you through this ugly time:

"Do I believe that these iconic companies have—just since the turn of the year—permanently lost a quarter of their enduring value as superior businesses?"

If you don't—as heaven knows I don't—there will be your answer. And if, a couple of months from now or whenever, the question has become "Have they lost a third of their enduring value," I suspect your "no" will be that much stronger. When it is, you'll be well on your way to a lifetime of successful investing. Because you'll have fully realized that the near-term prices of stocks and the long-term values of ***companies*** are two entirely different—and sometimes downright contradictory—things.

Peter Lynch, as he quite often did, said it best:

"The real key to making money in stocks is not to get scared out of them."

Sources for S&P 500 prices: Standard & Poor's, as reported by Yahoo Finance. Compound growth rates: Standard & Poor's, DQYDJ S&P 500 return calculator, Ibbotson 2022 Yearbook.