
# What To Do When Faced with Bear Market Rallies

*Look beyond the emotional headlines and study the hard facts about bears*

The real value of a bear market may be that it gives investors, who are temporarily frozen within its grip, the opportunity to learn or relearn important lessons regarding risk and diversification. For savvy investors, a bear market also creates a period for looking beyond emotional headlines and studying the hard facts – facts that can ultimately place them in a position to take advantage of coming opportunities.

Periods of falling equity prices are a natural part of investing in the stock market. Bear markets follow bull markets, and vice versa. They are considered the "ebb and flow" of wealth accumulation.

## Balance Your Anxiety with Reason

Bear markets create apprehension in the minds of many people. That's natural. However, any feelings of anxiety should be balanced with reason for anyone seeking financial success. Anyone dubious about the need for a stable outlook should consider that virtually every bear market was followed by a better than average annual rate of return from the bull market.

But just as importantly, bear markets have also at times delivered very healthy returns while the bear was on the prowl. And trying to predict when those healthy returns might take place is almost impossible.

## Bear Market Rallies

Previous bear markets have delivered some very significant rallies. And while they did not predict the end of the bear's reign, these rallies do provide good reasons to remain invested.

| Bear Market | Bear Market Rallies | Gain | # of Days Until Eventual Market Bottom |
|---|---|---|---|
| Oct '07 - Mar '09 | *Nov '08 - Jan '09* | 24.2% | 42 |
| | *Mar '08 - May '08* | 12.0% | 202 |
| Mar '00 - Oct '02 | *Jul '02 - Aug '02* | 20.7% | 33 |
| | *Sep '01 - Jan '02* | 21.4% | 192 |
| | *Apr '01 - May '01* | 19.0% | 346 |
| Nov '80 - Aug '82 | *Mar '82 - May '82* | 11.3% | 67 |
| | *Sep '81 - Nov '81* | 12.0% | 177 |
| Jan '73 - Oct '74 | *Feb '74 - Mar '74* | 10.0% | 143 |
| | *Dec '73 - Jan '74* | 8.3% | 190 |

## Focus on Five Lessons

Instead of taking a “time out” from the market, and missing out on potential opportunities, investors should focus on five key lessons the market has repeatedly been trying to teach everyone during its naturally occurring economic cycles:

1. Periods of falling prices are a common part of investing in the stock market.
2. An investment’s value will be greatly influenced by fundamental factors, such as profit and revenue growth.
3. Diversification, while it does not assure against market loss, often provides the safest haven against the ebb and flow of changing markets.
4. Invest over time, rather than make single lump-sum purchases. (Falling stock prices are the friends of dollar cost averaging investors.) Of course dollar cost averaging does not guarantee a profit or protect against a loss in a declining market and it’s important that investors continue investing through fluctuating market conditions.
5. Take a long-term view when investing in the stock market. Short-term fluctuations are natural. (The investment price and underlying business often have little to do with each other over the short term.)

Remember that you’ll be inundated with all kinds of economic information during both bear and bull markets. There will be reports, for example, about inflation, interest rates, and unemployment figures that may entice you to either give up on the stock market or invest in it to the exclusion of investments paying relatively smaller returns. To avoid being lured to either extreme, develop a financial strategy that accounts for risks you find comfortable.

Review your investments on a regular basis to help ensure they are still relevant to your overall financial plan, and that you’re staying on track.

Then trust yourself and stick with your plan.