ABOUT BEAR MARKETS

How did we arrive at this Bear market pronouncement?
The mathematical measurements of the **Bull-Bear Indicator** – the market 'internals' we collect and analyze, in order to distinguish between cyclical (usually years-long) Bull and Bear markets - are things like market breadth (e.g., how many areas of the market are participating in an up- or down-trend), and ratios of things like volume/advancers vs. decliners among stocks/percentage of stocks hitting new 52-week highs, among other inputs. These have now deteriorated sufficiently to push our Bull-Bear Indicator to beneath 45, our cyclical Bear level. A rise from here, in the Bull-Bear Indicator, would have to pierce-through the 55 level to return us to a cyclical Bull again.

Where is this Bear historically and right now, as far as a percent-drop from the peak?
In the 2008 Bear, the all-time was on 10/9/2007 with the S&P 500 at 1565.15; the Bull-Bear Indicator made its Bear call on 1/11/2008 with the S&P 500 at 1401.02, a -10.5% difference – a deft call, given that it occurred in what's considered Bull market 'correction' territory.

Since then, the all-time S&P 500 high was on 5/21/2015 at 2130.82; we made our current Bear call on 1/15/2016 with the S&P 500 at 1888.33, a -11.76% difference.

Why do we need a set of Bear-specific investment tactics? Isn't portfolio diversification itself, supposed to be my hedge against down markets?
Not to the degree that conventional thinking would have anyone believe. Here's the Bull and Bear difference, as that goes:
In a Bull, there is usually a very wide 'spread' among the in-favor equities asset classes, lending some ability to have strongly-outperforming assets in one's portfolio; those outperformers can serve as a flywheel to lesser-performing assets – and in that way, diversification is a boon, indeed

In a Bear, however, the spread among different assets utterly collapses, nearly always – and as Martha Reeves sang, that leaves 'Nowhere to run, Baby/Nowhere to hide' in one's portfolio, if the only constituents within it, are equities (or you have any substantive footprint in equities still, at that point)! There just generally aren't enough equities-oriented assets that can, in a Bear, shore-up the overall downtrend. It's just a matter of picking-over the 'Best of the Worst', but all still being merely degrees of 'worst'!
See the attached two images for an illustration of both these scenarios.

You always hear that you have to stay in the market - even during Bears - for fear of missing out on those 'Best 100 Days.' Is that true?
No, it isn't. However, it IS actually a (perverse?) fact that the best single up-days in the markets over time, have occurred in Bears! However, if those single up-days were (in and of themselves) big enough market-makers to lend adequate upside … we wouldn't be stating that they occurred in Bears! So, no …

attempting to catch 'greased lightning' like that, has never proven worth the intrigue of the idea of staying continuously-invested in equities in a Bear. **See the attached explanation and data table for more on that.**

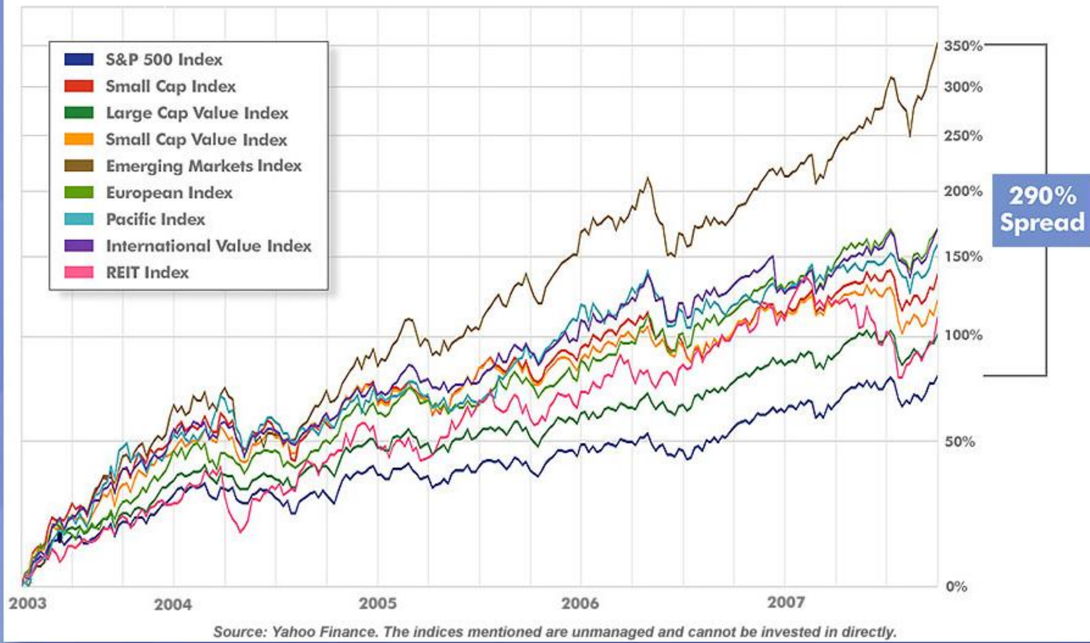
How big a difference does side-stepping a Bear, really make?

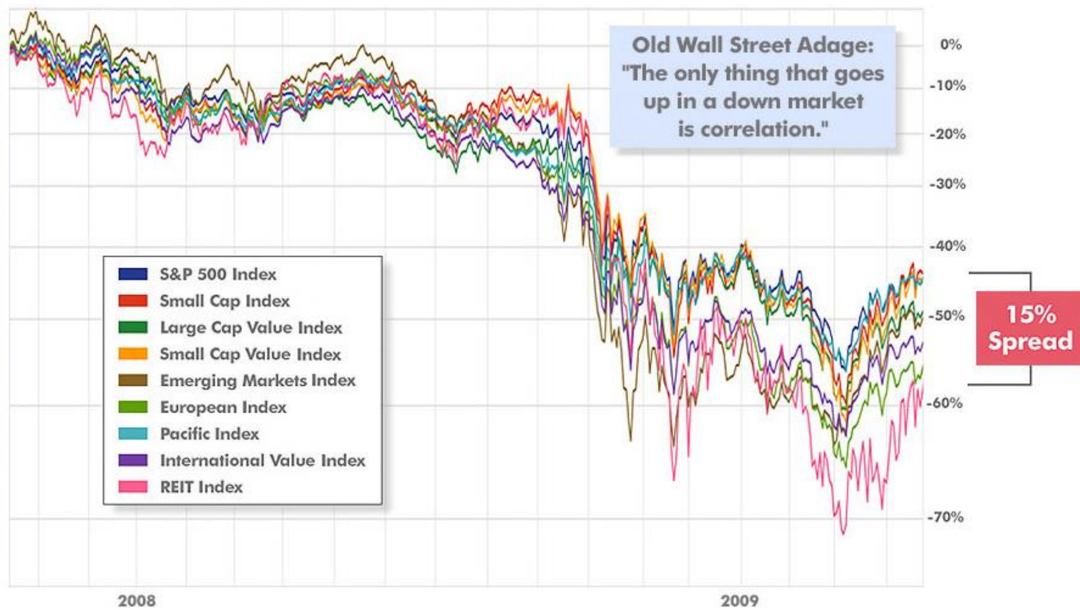
In any investment strategy, there are two components: 1. What exactly are you invested in, at any given time?; and 2. How invested are you in equities overall? Lightly? Heavily? From everything we have seen and experienced, the more impactful component of these two aspects of your investing life is 'how much' you're invested overall, at any time, as a reflection of market conditions. And of that more-important component, the most important aspect of equities exposure is this: NOT being in harm's way when the market craters. Of all the things one need do – and if you had to pick just one – that is far and away the most important. Recall the math required to claw-out of the depths of a Bear: If you're down 50%, that means you have to be up 100% after that, just to get back to even! At the low of the 2008 Bear – which actually occurred March 9th, 2009 – the S&P 500 was down 56.8%. Nowhere to run/nowhere to hide indeed, for the equities portion of a portfolio. At certain 'inflection points' in the market, a willingness to take bold, evasive action is a must.

What if we get whipsawed? What if the market zooms back up?

It could, of course. Getting reversed-on is always possible with any trade or any market-exposure decision, naturally, no matter when it is or who you are. So, worst-case scenario: Sitting on the sidelines briefly - not making anything, but not losing anything further, either - has been a much more sound choice, over time, than failing to act and then risking incurring additional losses, once a Bear is invoked. All we can do, all any mere mortals can do in this realm, is to react to whatever scenario is more probable to unfold, than not, at any given moment; and right now, the probabilities - from our broad slate of measurements of the things that underpin the stock market - are that a new Bear market has arrived.

Source: W.E. Sherman and Co, LLC, The Sherman Sheet; January 19, 2016


Diversification may work fine in a Bull Market...
S&P 500 Index
Small Cap Index
Large Cap Value Index
Small Cap Value Index
Emerging Markets Index
European Index
Pacific Index
International Value Index
REIT Index
350%
300%
250%
200%
150%
100%
50%
0%
290% Spread
2003
2004
2005
2006
2007
Source: Yahoo Finance. The indices mentioned are unmanaged and cannot be invested in directly.


...but not in a severe Bear Market
Old Wall Street Adage:
"The only thing that goes up in a down market is correlation."
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
15% Spread
S&P 500 Index
Small Cap Index
Large Cap Value Index
Small Cap Value Index
Emerging Markets Index
European Index
Pacific Index
International Value Index
REIT Index
2008
2009
Source: Yahoo Finance. The indices mentioned are unmanaged and cannot be invested in directly.