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10/05/11: Bear Market: It Occurred Yesterday

Perhaps I should have expanded on the definition of a "bear market" in my previous email on "Deciphering the Code". While there's no agreed-upon definition of a bear market, it is generally accepted that a price decline of 20% or more (from a recent market high) constitutes a bear market. If that is what we accept, we officially entered bear market territory midday yesterday (as the market declined 20% from its late April high), but then, the market bounced back in a big way in the final trading minutes of the day.

Yesterday's market movement is a great example of the wide swings (or maybe wild swings is a better phrase) we have experienced over the past several months. The stock market (and in this case I am referring to the Dow Jones Industrial Average, or DJIA) was down at one point over 250 points, only to regain that and add on another 152 points. This represents a swing of over 400 points, or an almost 4% intraday move (from the lowest point of the day). This type of intraday craziness is enough to make your head spin. I'd like to believe that this all means the sellers are mostly "out" of the stock market and investors are finally realizing the excellent values in the market now (of which there are many), but of course there is no way to know this in advance. (If you know anyone who can consistently forecast these things with accuracy, please send me their contact info ASAP.)

The world is struggling with many negative issues right now: Greece's imminent default, the Eurozone's ties to Greece, the potential breakup of the Eurozone, the U.S.' economic decline and potential (double dip) recession, huge credit issues lingering in the developed world, China's economic slowdown (from 9-10% growth to 7%) while grappling with inflation, what are "risky" assets and what are "safe" assets (there have been major "psychological" as well as real changes as to what constitutes a risky asset over the past few years), etc.

But there are also positive economic trends and data that we need to remain aware of: the huge growth in the middle class in countries such as China and others that we typically define as emerging (or developing) and the built-up demand among those billions (yes, billions) of people, huge amounts of cash sitting on corporations' balance sheets (just waiting for something to buy or someone to hire or products/services to produce more of), the lowest interest rates we have experienced in decades, just waiting for people or corporations to borrow and start building again. I cannot forecast the future, but I believe these things will happen again, because the world is not coming to an end.

History has shown that the best time to buy into (or just be in) the stock market is when everyone else is fleeing, and the worst time to buy is when everything looks rosy. I cannot predict the future, but I believe we will look back on this time a year from now and realize what a great buying opportunity it was.

If you are considering buying a car, or a new home, or any type of major purchase, borrowing at 2.5% (this is the interest rate on my own home equity line of credit) is an opportunity we may never have again in our lifetimes. If you do not have a home equity line of credit in place, I highly recommend you go out and get one. You may not need it today, but since we can't forecast the future, why not get it in place just in case?

Margie