# Remedying Bear Market Blues

**Avoiding common investment mistakes in an emotional bear market**

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The dog days of summer have certainly brought no break to the financial markets. Unfortunately, we remain firmly entrenched in a bear market. A falling dollar, corporate accounting concerns, crooked CEO's, technology-spending cuts, and terrorist threats have all converged to form the "perfect storm". Will this storm *ever* end? At the risk of sounding like a broken record: we say a resounding "YES". Economic growth is projected to be solid again next year with real output rising 3 ½ to 4%. Such growth should bring the unemployment rate down to 5 ¼ to 5 ½% by the end of 2003. Inflation is expected to remain subdued with prices for personal consumption expenditures increasing around 1 ½% - bullish numbers.

But what can't be quantified is investor confidence. Well, actually it can be – we would guess it's currently somewhere near 0. With such widely held stocks as Worldcom trending near zero, it's no surprise that investors are shaken and feel no company is trustworthy. With over $4 trillion now parked in money markets, investors have voted with their pocketbooks. Understandable, but is this action financially wise? Let's examine 9 common mistakes investors make near market bottoms and how we can remedy them.

1. **Freezing Up.** Many investors tired of looking at declining portfolio values run the risk of doing nothing. Instead they could be upgrading and re-balancing their portfolios to catch potential gains. Market losses are painful but at least get a portfolio tune-up for the next inevitable market cycle. Bear market cycles typically last 18-24 months.
2. **Random Cherry Picking.** As investors start to rebuild their portfolios, many neglect to look clearly at their mix of shares. Cherry picking can undermine diversification. Shop all asset classes – international, bonds, small caps etc. Be careful about swinging for fences though.
3. **Abandoning Savings.** Discouraged by sharp market declines, many investors cease saving altogether. The downside, for the purposes of dollar cost averaging, is that investors miss out on buying more shares at cheaper prices. At the very least, investors should continue to accumulate piles of cash to eventually dispatch. Disciplined savings is the road to wealth. As financial columnist, Louis Rukeyser, recently said: "The millionaires of 2010 are the buyers of today".
4. **Focusing on stock price rather than fundamentals.** No doubt, this is difficult but necessary. Don't buy "names"; buy companies. Focus on earnings, cash flow, clean balance sheets and growing markets – not just absolute price and 'name'. Recent news has severely punished some excellent companies. These become first rate, long term, buying opportunities.
5. **Irrational spending on big-ticket items.** Many investors sell out near market bottoms, justifying their actions saying, "The market has tanked, so why not buy something tangible?" Bear markets and economic recessions aren't the best time to make large expenditures – rather, wait until markets recover to take some profits. The markets have a long-term upward bias: boats and cars do not.
6. **Chasing hot sectors.** Many suffering investors make their situation worse by chasing hot investment sectors that have already realized sizeable appreciation. For example: gold, hedge funds, bear funds have been recent top performers. Don't crash the party just as it is breaking up – that is just in time to clean up the mess.
7. **Dwelling on the past.** This is one of the most common. Investors frequently lament past losses during such severe bear markets. While understandable, it's unproductive. We all make mistakes but how well we learn from them determines future success. We should analyze what has worked/not worked and what improvements could have been made/will be made in the future.
8. **Timing the market.** While this topic can be sensitive, we are not market timers at Houlihan Asset Management. Most investors aren't either. But cashing in your portfolio and waiting for sunnier days is just that – timing the markets. Studies show market timers do NOT consistently outperform the market, rather just the opposite. Stay the course.
9. **Abandoning your investment policy.** Investors *should* have Investment Policy Statements. That is your formulated blue print to wealth. This game plan is intended to help stay the course – especially during times of adversity. Recall your goals and financial objectives. Have they changed? We would be happy to review (and modify, if needed) Investment Policies with all clients.

This list is by no means exhaustive by rather a starting point of common mistakes all investors make. There is no doubt this market has been very difficult and improvement may come slowly. Declining portfolio statements unnerve everyone – no one likes to lose money. But failure to maintain proper perspective could be even more costly in the long run.

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