

Can 'Buy & Hold' Become 'Crash & Burn'?

By Ed Jaeger, Managing Director, Pensionmark Retirement Group

The stock market does not travel on a straight line upward. The long-term trend is one of growth, however, along the way there have been peaks and valleys.

Bear Market Facts

In fact, according to *Standard & Poor's*, since 1929 there have been thirteen bear markets. They have come in varying length, depth and have not announced when they were arriving. But historically we know these facts:

- On average Bear Markets last 21 months (Source: *Standard & Poor's*) – nearly two years of your portfolio riding downward
- The average percent of decline is 39.5 % (Source: *Standard & Poor's*) – in other words with no activity to stop the decline in your portfolio, poof, you have lost about 40% of your portfolio value
- The average cumulative returns after a Bear Market ends are: (Source: *Standard & Poor's*)
 - One year – 44.9% (nice return from your smaller portfolio – but you are still behind)
 - Three years – 63.9%
 - Five years - 103.4%
 - Ten years – 184.8%

Is Time On Your Side?

Historically, the stock market has bounced back after Bear Markets. But it takes time. Using the average of about a 40% decline, we know recovering that initial investment will require a total return of about 66.67% (see table below). According to *Standard & Poor's*, on average it takes three years to recover 63.9%. What does this mean to you?

About Five Years Of Agony!

Think about it – on average the ride down from your initial investment is just under two years (21 months) and the total return needed to recover from your personal crash will take a little over three years. Ouch! This is a time most investors have a lot of woulda, coulda and shoulda conversations. But the fact remains, this is a tough situation.

| If a loss is | Approximate total return needed over time to get back to the initial investment |
|-------------------|---|
| -10% | 11.11% |
| -15% | 17.65% |
| -20% | 25.00% |
| -25% | 33.33% |
| -30% | 42.86% |
| -35% | 53.85% |
| -40% | 66.67% |
| -45% | 81.82% |
| -50% | 100% |

Buy & Hold: Are You a Masochist?

The Buy & Hold strategy has been a foundation for investors for decades. And, in what many call the American Century, who can argue with the results in general? Over time the market has climbed.

However, consider these Bear Market facts – some we have mentioned and some new:

- Since 1929 there have been 13 bear markets (Source: *Standard & Poor's*)
- That is an average of a bear market every 6.2 years
- The average decline is 39.5% (Source: *Standard & Poor's*)
- This decline takes 21 months (Source: *Standard & Poor's*)
- To recover you need a total return of approximately 67%
- To achieve 67% return, on average it will take a little over 3 years (Source: *Standard & Poor's*)
- On average this cycle takes a little over five years
- Using the data supplied by *Standard & Poor's*, in an average business cycle, from bear market to bear market which lasts about 6.2 years, a little over 5 of those years are spent with your portfolio either declining or recovering from the decline.
- That equates to your portfolio operating in the black about 19% of the time (on average)

Have You Noticed Life Doesn't Stop?

The problem the average investor faces is the investments they have are meant for some purpose. Unfortunately, those purposes operate on their own timeline regardless of whether there is a Bear Market or a Bull market. Consider just a few life events:

- College
- Weddings
- Illness
- Retirement

Life doesn't stop and if funds are required from your portfolio, the withdrawal of those funds can be painful. Of course, prudent advisors will tell you not to invest when you will need the money within the next year or two. However, what if the money is invested to help pay for college starting in 2017 and you experience a 50% downswing in 2012, five years prior to your start date?

Let's Do The Math

First you experience a 21 month decline. Then you need five (on average) to attain a 103% cumulative return to get your portfolio back to your starting point in 2012. That's the equivalent of five years, **plus** almost two years for a total of almost seven years. Remember, college starts in five years.

You are left with the following options: get a school loan; get a job; pay as you go; use funds from your portfolio (which is still valued at less than they were five years prior) or all of the above. So much for the Buy and Hold strategy. Five years prior to when you needed your assets; it allowed you to crash and burn.

Managed Money Allows You To 'Win By Not Losing'

Traditional Buy & Hold strategies, if not attended to for changing market conditions, can cause havoc with the average investor's portfolio. Investors need their money, when they need their money. Unfortunately, the Buy & Hold strategies can set people up for an unpleasant decision. If/when the market is down when you want to use your assets, what do you do? Do you cash in what are usually temporarily devalued securities for immediate use, find another method of funding or make do with less.

These are very sobering questions that may be avoided by using actively managed funds. The management techniques used by Vista Wealth Management provide investors with actively managed strategies to provide an alternative to buy and hold. This allows us to pursue two primary goals:

- Avoid large losses during bear markets and corrections, which in turn...
- Gives you a better starting point for riding upward market trends to build your net worth to new heights rather than just getting back to a starting point.

Vista Wealth Management uses these philosophies coupled with time tested techniques to help you 'win by not losing'.

A review of present portfolio holdings can help an investor determine if risk can be managed more effectively with an opportunity to take better advantage of bull markets.

To see if you can avoid a 'Crash & Burn' situation, contact Ed Jaeger at 608-213-1968