

Story of Bull & Bear Markets: Where Are We Now?

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Defining Bull and Bear Markets

- **Secular Bull and Bear Markets**
 - Gains of more than 200% over 7-16 years
 - Losses greater than 40% typically over 2 to 3 years or more

- **Cyclical Bull and Bear Markets**
 - Gains of more than 20%
 - Losses of more than 20%

Exhibit 1: Last 12 S&P 500 Bear Markets

Start	End	Months	S&P 500 Change
09/07/29	06/01/32	33	-86%
03/06/37	04/28/42	62	-60%
05/29/46	06/13/49	36	-30%
08/02/56	10/22/57	15	-22%
12/12/61	06/26/62	6	-28%
02/09/66	10/07/66	8	-22%
11/29/68	05/26/70	18	-36%
01/11/73	10/03/74	21	-48%
11/28/80	08/12/82	20	-27%
08/25/87	12/04/87	3	-34%
07/16/90	10/11/90	3	-20%
03/24/00	10/09/02	31	-49%
AVERAGE		21	-38%
10/09/07	03/09/09	17	-57%

Source: Global Financial Data; price index returns

Exhibit 2: Last 12 S&P 500 Bull Markets

Start	End	12 Month Returns From Bottom	Bull Duration	Total Bull Return
06/01/32	03/06/37	121%	57	324%
04/28/42	05/29/46	54%	49	158%
06/13/49	08/02/56	42%	85	267%
10/22/57	12/12/61	31%	50	86%
06/26/62	02/09/66	33%	43	80%
10/07/66	11/29/68	33%	26	48%
05/26/70	01/11/73	44%	32	74%
10/03/74	11/28/80	38%	74	126%
08/12/82	08/25/87	58%	60	229%
12/04/87	07/16/90	23%	31	65%
10/11/90	03/24/00	29%	113	417%
10/09/02	10/09/07	34%	60	101%
AVERAGE		45%	57	164%

Source: Global Financial Data

3-09-09 to 2-13-15 71 months & +185%

Bull and Bear Decades

- | Average Annual Total Return | Best Years | Avg. Inflation: |
|-----------------------------|------------|-----------------|
| 1950-1959 = +19.4% | 52.6% | 2.2% |
| | 43.4 | |
| | 31.7 | |
| | 31.6 | |
| 1960-1969 = 7.8% | 26.9% | 2.5% |
| 1970-1979 = 5.9% | 37.2% | 7.4% |
| 1980-1989 = 17.6% | 32.5% | 5.1% |
| | 31.7% | |

Bull and Bear Decades

- | | | |
|-----------------------------|--------------|-----------------|
| ▪ Average Yrly Total Return | ▪ Best Years | Avg. Inflation: |
| ▪ 1990-1999 = +18.2% | ▪ 37.6% | 2.9% |
| | ▪ 33.4% | |
| | ▪ 30.5% | |
| | ▪ 28.6% | |
| ▪ 2000-2009 = -0.95% | ▪ 28.7% | 2.5% |
| ▪ 2010-2014 = 15.6% | ▪ 32.4% | 1.7% |
| | ▪ 26.5% | |

WORLD EVENTS DO NOT DESTROY STOCKS

From Ric Edelman, [The Truth About Money](#)

The S&P 500 Went Down in Only 13 Years Since 1940

Year	Event	S&P 500
1940	Germany invades France	-9.78%
1941	Pearl Harbor	-11.59
1942	Gas rationing begins	+20.34
1943	War escalates	+25.9
1944	Consumer good shortage	+19.75
1945	Roosevelt dies	+36.44
1946	Labor strife	-8.07
1947	Cold war begins	+5.71
1948	Berlin blockade	+5.5
1949	Russia explodes A-bomb	+18.79
1950	Korean conflict begins	+31.71
1951	Korean conflict	+24.02
1952	Government seizes mills	+18.37
1953	Russia explodes H-bomb	-0.99
1954	McCarthy hearings	+52.62
1955	Eisenhower falls ill	+31.56
1956	Suez canal crisis	+6.56
1957	Russia launches Sputnik	-10.78
1958	Recession	+43.36
1959	Castro seizes power	+11.96
1960	Russia downs spy plane	+0.47
1961	Berlin Wall erected	+26.89
1962	Cuban missile crisis	-8.73
1963	Kennedy assassinated	+22.8
1964	Gulf of Tonkin	+16.48
1965	Civil rights unrest	+12.45
1966	Vietnam war	-10.06
1967	Race riots	+23.98

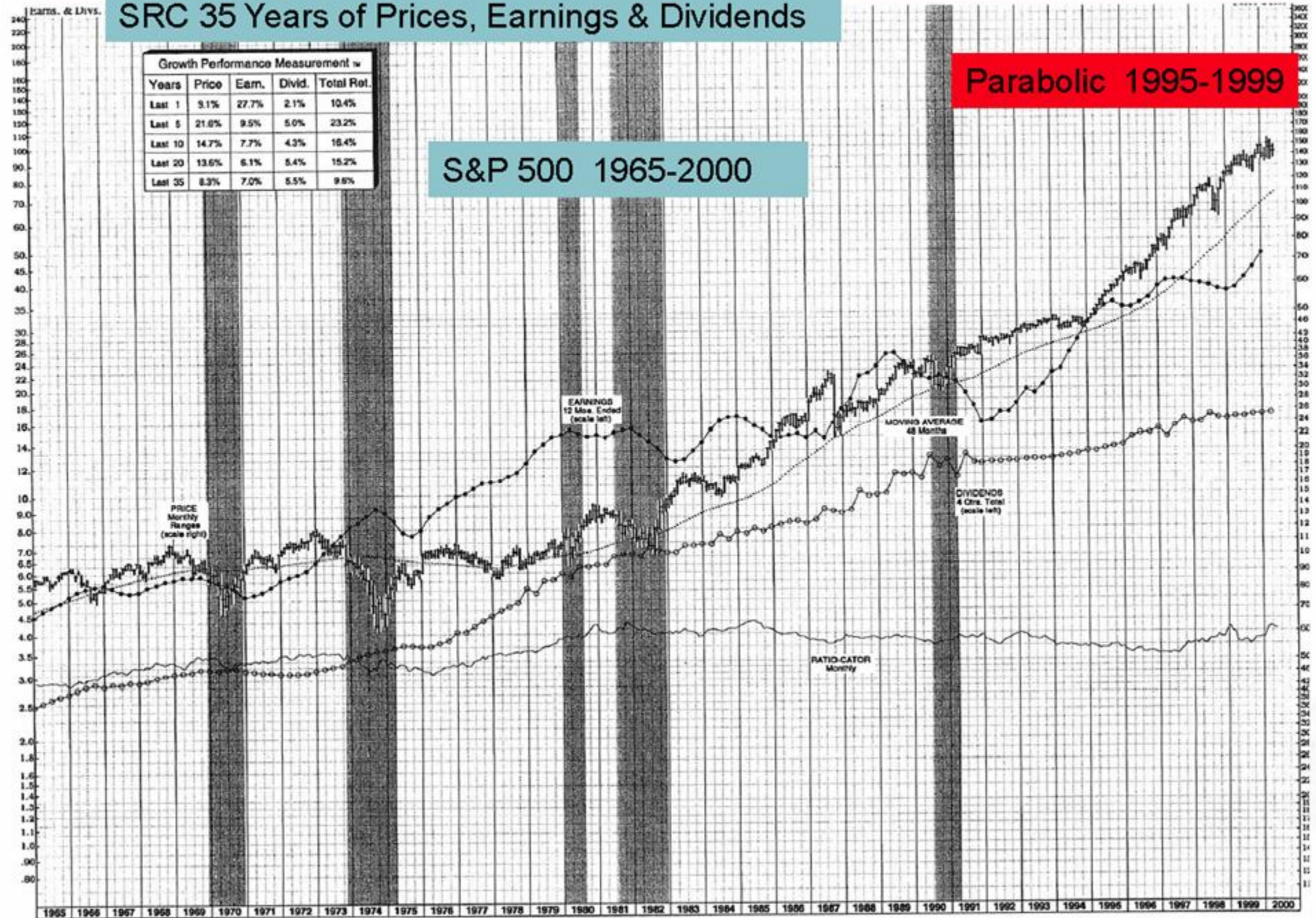
Year	Event	S&P 500
1968	USS Pueblo seized	+11.06
1969	Japan is new economic power	-8.5
1970	N. Vietnam invades Cambodia	+4.01
1971	Wage and price freeze	+14.31
1972	Record US trade deficit	+18.98
1973	Mideast oil crisis. Long gas lines	-14.66
1974	Deep recession in US & Europe	-26.47
1975	Recession deepens	+37.2
1976	Gold prices plunge	+23.84
1977	Trade wars loom	-7.18
1978	Interest rates surge	+6.56
1979	Inflation & oil prices skyrocket	+18.44
1980	American hostages in Iran	+32.42
1981	High unemployment	-4.91
1982	Worst recession in 40 years	+21.41
1983	Interest rates fluctuate	+22.51
1984	Deficit goes over \$200 billion	+6.27
1985	Record number of S&Ls fail	+32.16
1986	Tax Reform Act of 1986	+18.47
1987	Stock market tumbles	+5.23
1988	Fear of recession	+16.81
1989	Invasion of Panama	+31.49
1990	Iraq invades Kuwait	-3.17
1991	The Gulf War	+30.55
1992	Civil War in the Balkans	+7.67
1993	The Great Flood of 1993	+9.99
1994	Worst bond market ever	+1.31
1995	Oklahoma bombing	+37.43

SRC 35 Years of Prices, Earnings & Dividends

Growth Performance Measurement ^{1w}				
Years	Price	Earn.	Divid.	Total Ret.
Last 1	9.1%	27.7%	2.1%	10.4%
Last 5	21.6%	9.5%	5.0%	23.2%
Last 10	14.7%	7.7%	4.3%	16.4%
Last 20	13.6%	6.1%	5.4%	15.2%
Last 35	8.3%	7.0%	5.5%	9.6%

S&P 500 1965-2000

Parabolic 1995-1999

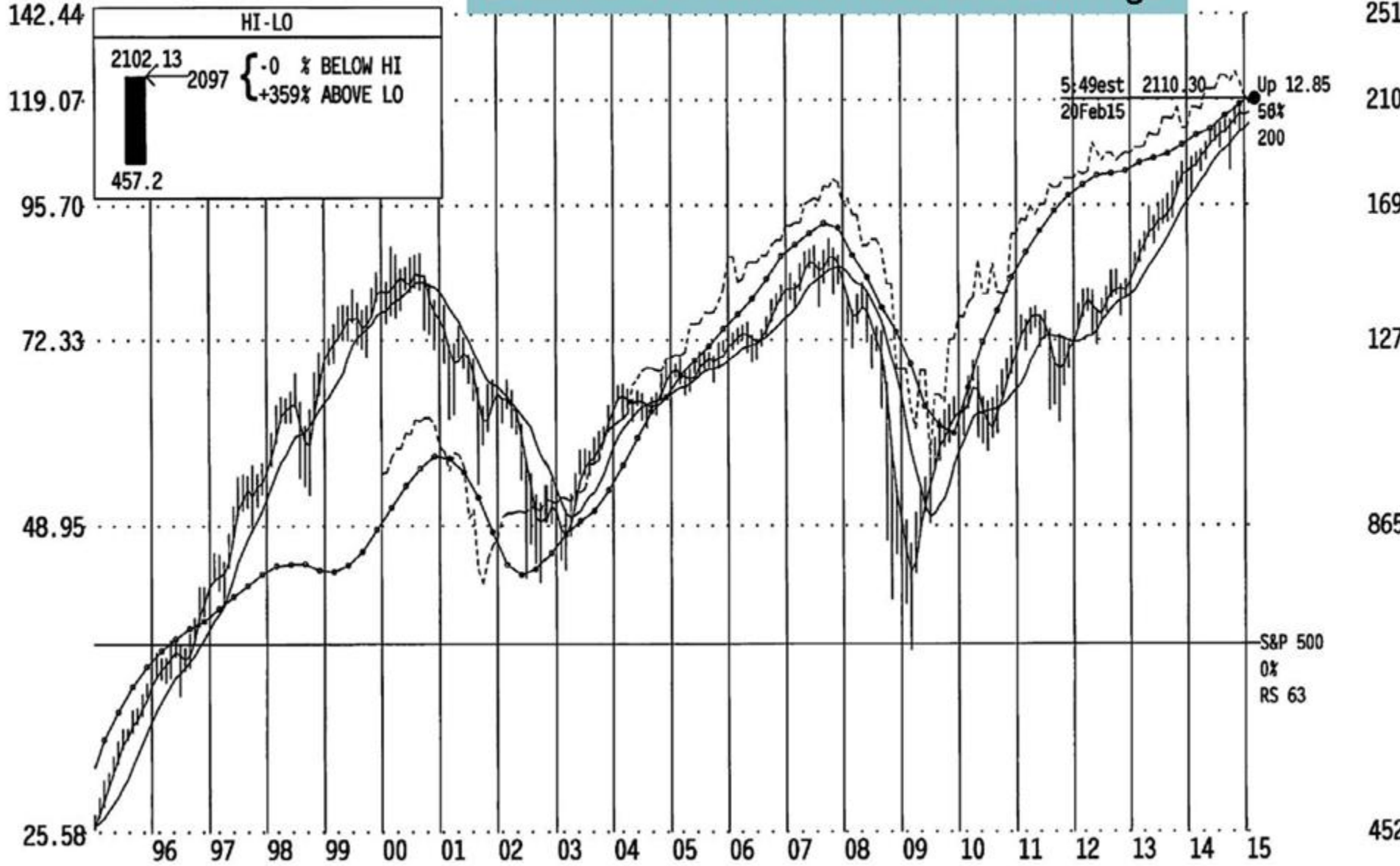
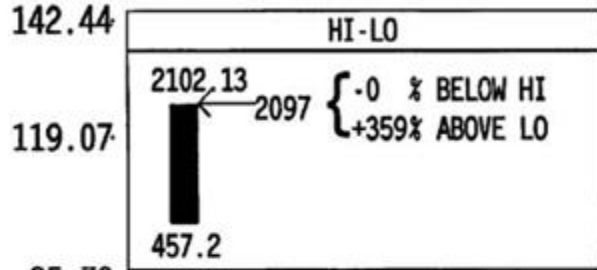


S&P 500 (SPX)

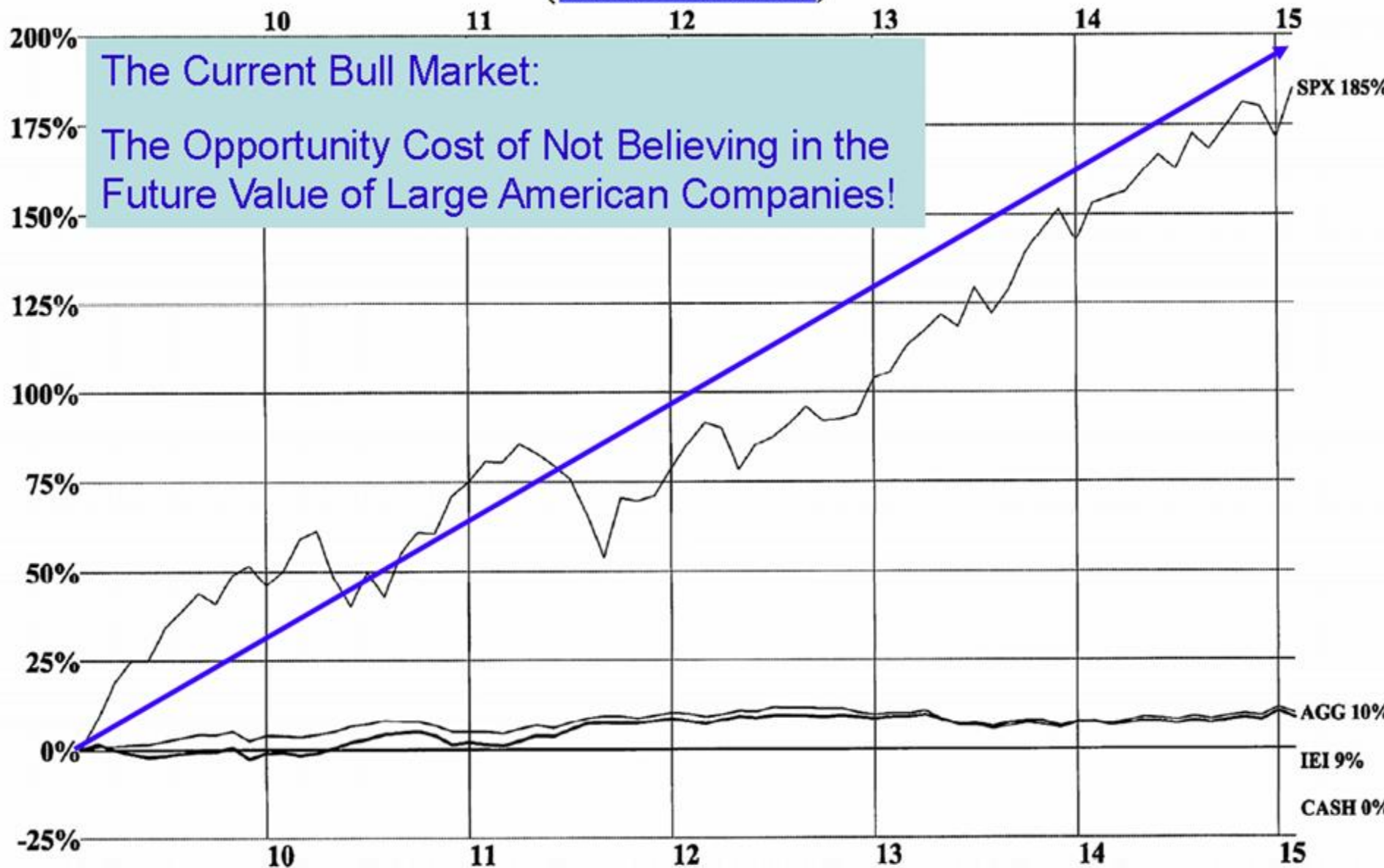
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Baseline: 20 Years of Prices and Earnings

FWD P/E: 17.7 (P/E: 17.8)



S&P 500 vs ISHARES CORE US AGGR vs CASH vs ISHARES 3-7YR TRSRY
(Feb 2009 TO Feb 2015)



The Current Bull Market:
The Opportunity Cost of Not Believing in the
Future Value of Large American Companies!

SPX 185%

AGG 10%

IEI 9%

CASH 0%

What Is the Record and What Are “the odds” for Stock Investors?

1. Since 1925 investing in large companies has produced a compounded return of 10.1% per year
2. Aside from shorter term volatility, investing for the long term is a “game” with a positive 10.1% average annual edge over a coin flip
3. Yet most people approach investing in stocks as a gamble
4. 71% of yearly returns have been positive; 29% negative
5. 86% of five-year holding periods have been positive
6. 96% of ten-year holding periods have been positive
7. 100% of twenty-year holding periods have been positive

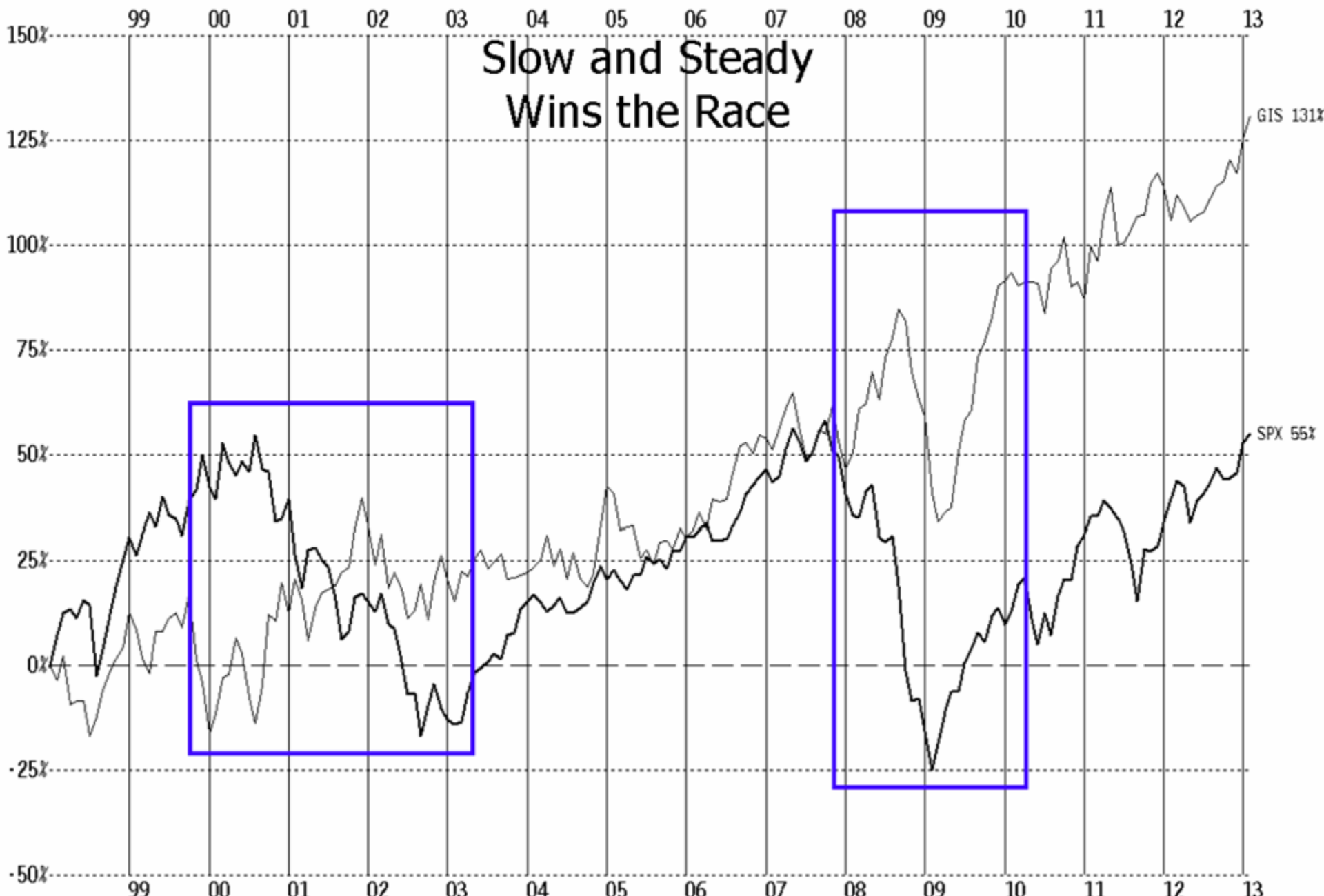
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JOHNSON & JOHNSON vs S&P 500
(Oct 09, 2007 TO Mar 09, 2009)



GENERAL MILLS vs S&P 500

(Jan 1998 TO Feb 2013)



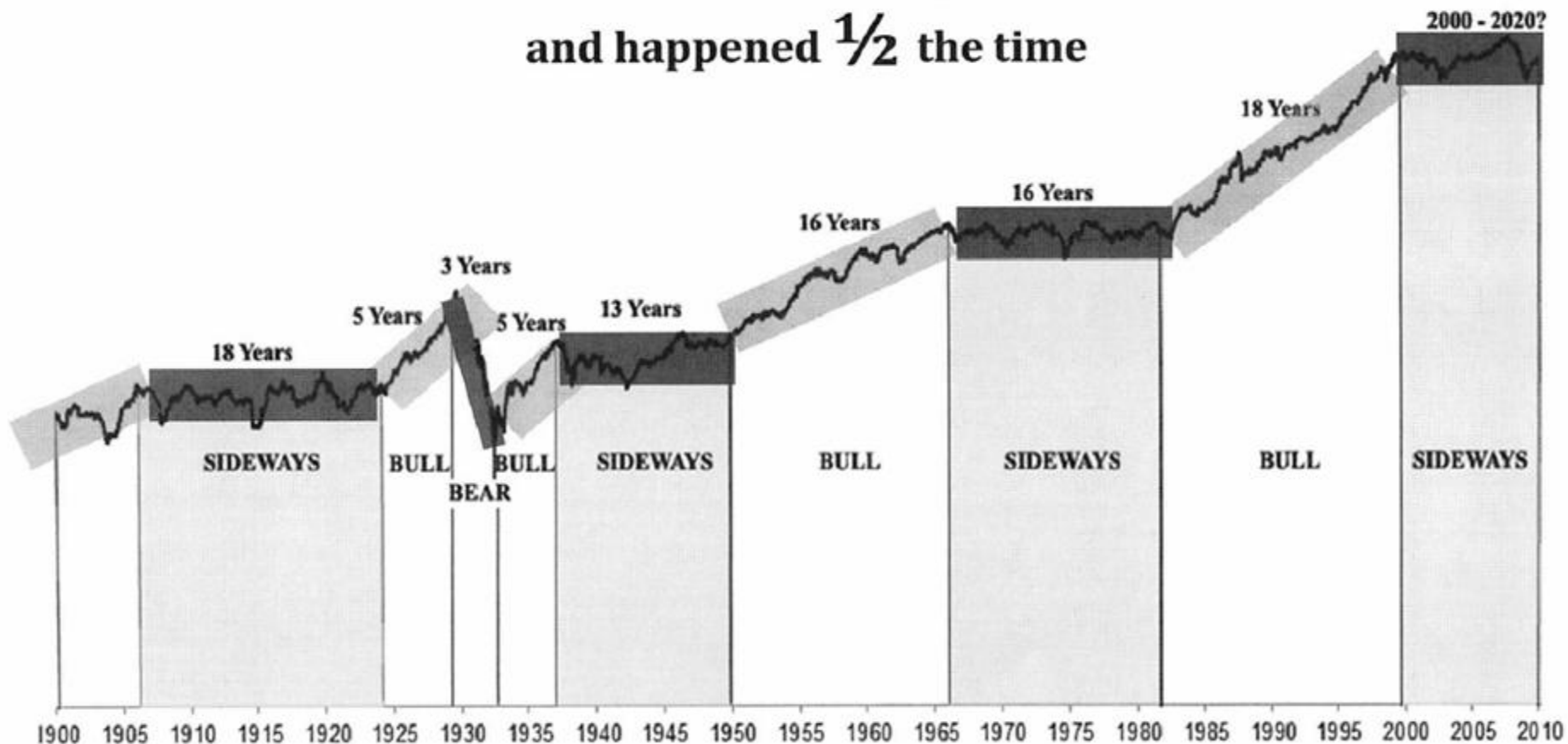
Was There Really Only One True Bear?

- Vitaliy Katsenelson, CFA, argues that only 1929-1932 was a true bear market
- It was the only bear market when both earnings and valuation (P/E multiples) contracted
- In his view the other bear markets only involved P/E compression from overvaluation
- Either way, when you experience a big bear it feels the same regardless of the mechanism
- Mass psychology cascades into a crater of panic and despair

Dow Jones Industrial Average 100+ Years

Vitaliy Katsenelson, CFA – Presentation in 2012

The “bear” markets were actually sideways markets
and happened $\frac{1}{2}$ the time



Some Reasons this Bull Is Not Done

- Professional investment strategists have the lowest suggested allocation to stocks in 10 years
- Pension plans have their lowest actual allocation to stocks since the 1950s
- The public has little interest in stocks
- Growling bears are being featured on the cover of major publications (twice just last week!)
- Most people who are “in the market” are worried that “it could all disappear in a flash”
- # of investment clubs at lowest since 1981

Bear Markets Begin When Everyone Has Already Bought

- Everyone is bragging about what they own
- But they all own the same favorite stocks
- Little fuel left on the sidelines
- Prices have gone parabolic & skyrocketed beyond anyone's (normal) expectations
- Everyone has jumped on the bandwagon
- Then a sudden recognition by all buyers they are like Wiley E. Coyote, "over the edge with nothing but air for support"

Bear Markets End When

- There are no sellers left to sell
- The sum of all fears is fully felt
- No holders can be scared out of stocks
- Highest quality stocks are always sold last
- A vacuum is created with little supply above as stock prices begin a measured but persistent ascent
- But skepticism and disbelief persist for years