

Lessons from 'bears' past: Be steady with investments

When I entered the investment business, I was privileged to witness three of the most prolific years in market history.

During that time I continued to hear a common theme from investors, economists, politicians, and even cab drivers – “this time it’s different.”

People believed the new economy was going to sustain a bull market through the foreseeable future. Forget that earnings were slowing, Alan Greenspan was raising rates as high as a cat’s back, and valuations were way out of line with historical averages.

Along with everyone else, I soon found that it wasn’t different this time. The market corrected itself to where it should be and then plummeted from there. The market went into a downturn that would be the deepest and sharpest in modern market history. But I once again began to hear a familiar theme from the investment community – “this time it’s different.”

Forget that Greenspan was cutting rates lower than a snake’s belly, that inflation was at one of its lowest points in history, valuations looked attractive again, and corporate profits and earn-



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ings were once again on the rise.

George Santayana once said, “those who cannot remember the past are condemned to repeat it.” We all found out that, this time, it wasn’t different.

Many market gurus and economists are now predicting a slow moving market that will be neither bull nor bear. Once again I’m hearing that familiar cry.

They may be right. Based on my time in this business, there’s one certainty. We participate in a cyclical market with no crystal ball to predict the timing of those cycles. From the 1920’s to the present, the fundamentals and the market cycles haven’t changed.

Sir John Templeton said it best: “Bull markets are born on pessimism, bull markets grow on skepticism, bull markets mature on opti-

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mism, and then bull markets die with euphoria.”

Look at the last three cycles as an example of that. A bull market was born in 1974 on a pessimistic world view fueled by an oil embargo and the resignation of a president. The bull market grew in 1977 on the skepticism created by extremely high interest rates and a faltering economy. The bull market matured through 1980 on optimism, and then died in 1981 with euphoria.

Another bull market began in 1983

on pessimistic views of the Reagan tax cuts and management vs labor issues. It grew with a skeptical reaction to the Fed chairman’s focus on fighting inflation in 1984. The bull market matured on optimism in 1986, and died with euphoria in 1987.

The bull market returned in 1991 amid pessimism derived from the first Gulf War and grew amid the skepticism created by the rate hikes of 1994. The bull market matured on the optimism of 1997, and then died with euphoria in 2000.

The bull market was born again in October of 2002. It is my view that the market will continue to grow with skepticism for a time. Then the market will mature on optimism, followed by its death with euphoric bliss.

When does it happen? How long and deep are the cycles? Who knows? I can tell you this – until we realize the fundamental principle of investing, regardless of market swings and economic shifts, is to invest regularly over time and without emotion, we may be forced to repeat that history.

Maybe that’s a good thing.

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