

A FURTHER STUDY OF HISTORY

Last month we explored the Japanese stock market experience during the past twenty years, and for a while now I have been educating clients on what actually occurs at the bottoms of secular bear markets. Today I would like to show you what those historical figures look like so you can decide if the March 2009 low was *the low* for this stock cycle. Let's dig in.

There are typically four factors that exist at the bottom of every great secular stock bear market, and they are: (1) P/E ratios in the single digits; (2) Dividend Yields in the single, and on occasion, low double digits; (3) one ounce of gold will buy one (+/-) units of the Dow Jones Industrial Average; and (4) investors will *despise* stocks. Please refer to the following chart to review the P/E and Dividend Yield figures for the past five secular bear market bottoms:

YEAR	P/E	DIVIDEND YIELD
1932	N/A	10.2%
1949	5.4	7.6%
1974	7.5	5.1%
1980	6.8	5.7%
1982	7.9	6.3%

Source: Richard Russell, *Dow Theory Letters, Inc.*

Which of these were prevalent at the March 2009 lows? At the March 2009 lows the P/E was 22 and the dividend yield was 4.7%. The Dow-to-Gold ratio was approximately 7.5:1 (i.e. one unit of the Dow bought 7.5 ounces of gold), and investors were *scared* of stocks – they didn't *despise* stocks.

So **if** we are to experience a great secular bear market bottom in stocks again, these figures give us a reasonable assuredness that 2009 was not it.

Looking at today, we see the current P/E on the stock market is approximately 24*, the dividend yield is 2.49%, the Dow-to-Gold ratio is approximately 9.04, and investors are mostly in love with stocks again.

So what's an investor to do? Exercise *caution* and *patience*. The first is relatively easy, but the second can be daunting. From a personal perspective, many of the conversations I have with clients today are centered on their concern about looming retirement and making their accounts "grow" with the remaining 5-10 years they have left before they retire. Unfortunately, a pre-determined belief of "retirement" based on age only is causing some investors to make decisions using their *emotions* rather than sound logic and reasoning. Emotions are the Achilles heel for investors, and in my opinion, they should focus on *values* and how to maintain the *buying power* of their money during this cycle to be best prepared for the opportunities that most likely lay ahead.

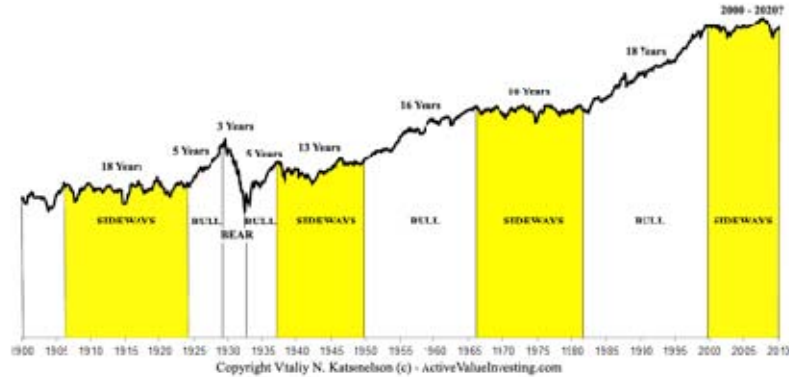
One additional chart can be viewed on the next page. It illustrates the historical nature of bull and bear cycles within the stock market. You can observe that on average these cycles last 16-18 years. So if this most recent bear cycle (**if** in fact it is a bear cycle) began in 2000, we shouldn't be surprised to see this secular bear market end until 2016-2018. In the meantime, invest wisely and use history as your guide.



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