Learning to Love the Bear
by Gary Case

According to Wall Street Journal columnist Jason Zweig, in the last bear market, 1969-1982, stocks returned just 5.6% annually (before inflation and taxes!). Stocks became so inexpensive that over the ensuing 18 years they went up 18.5% a year, enough to turn $10,000 into more than $200,000. Today it could be argued that, with market indexes returning less than 1% annually on average over the past 10 years, we have already been in a bear market for some time.

This May, at Berkshire Hathaway's annual meeting, Warren Buffet made this statement, "If a stock (I own) goes down 50%, I'd look forward to it. I would offer you a significant sum of money if you could give me the opportunity for all of my stocks to go down 50% over the next month." Mr. Buffet believes his holdings are first and foremost good businesses and he would like to buy more shares in those companies when the price of those shares is depressed.

Mr. Buffet credits economist and author Benjamin Graham with inspiring and instructing him to become arguably the most successful investor in history. Grtaham's book, Security Analysis, was published in 1934 and has been considered by many as a bible for serious investors. It and The Intelligent Investor, published in 1949, are his two most widely acclaimed books. Mr. Buffet describes the latter as "the best book on investing ever written."

Graham wrote that the owner of equity stocks should regard them first and foremost as conferring part ownership of a business. With that perspective in mind, the stock owner should not be too concerned with erratic fluctuations in stock prices. He aslo wrote that investment is most intelligent when it is most businesslike, a statement which Warren Buffett regarded as the most important words about investment ever written. Graham said that the stock investor is neither right nor wrong because others agreed or disagreed with him; he is right because his facts and analysis are right.

Intelligent investing entails buying and holding good investments (one way is to hire managers you trust), and keep costs reasonable. This is a difficult proposition in an investment world seething with free online trades, shreiking TV pundits, and press that seeks to sell more than to inform. If you have developed a thoughtful investment policy statement and positioned your portfolio using quality strategists and managers, the key to remaining successful is maintaining self- control in both bull and bear markets.

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