TOCQUEVILLE

Turn! Turn! Turn!

Written by: Paul Kleinschmidt
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The song “Turn! Turn! Turn!” — based on the biblical Book of Ecclesiastes – was written by Pete Seeger in the late 1950’s and recorded by The Birds in the mid ‘60’s. It reminds us that there is a time for everything in life. A time to laugh. A time to cry. A time to gain, a time to lose. Investing is no different and there are, of course, times to sow and times to reap. Almost all contrarian investors know that the time to buy is when the future looks most bleak. Whether they do this or not is another matter altogether. But how about a time to sell? If so, when? Are we in one now?

Current financial markets have been in a vicious state of retrenchment since the start of the year. The S&P 500, led by the Technology sector, finished the first half of the year down nearly 20% (the worst start to a year since 1970). The bond market, often considered a ballast to equity volatility in balanced portfolios, is on pace for its worst calendar year ever. Even gold, the vaunted safe haven in times of

uncertainty or inflation, is negative for the year.

The rush for the exits has been breathtaking. Even when there is a very good reason for markets to de-rate, the speed and depth of the downside move can make investors very timid.

Below is a chart detailing every time the S&P 500 fell into a Bear Market (defined as at least a 20% sell off from peak). On average, since the Great Depression, bear markets have lasted twenty months and have declined an average 38% from their previous highs. But these averages overstate the case. Taking just the post war period, the average duration of the Bear market is just over fourteen months, while the decline has averaged a still debilitating 33%.

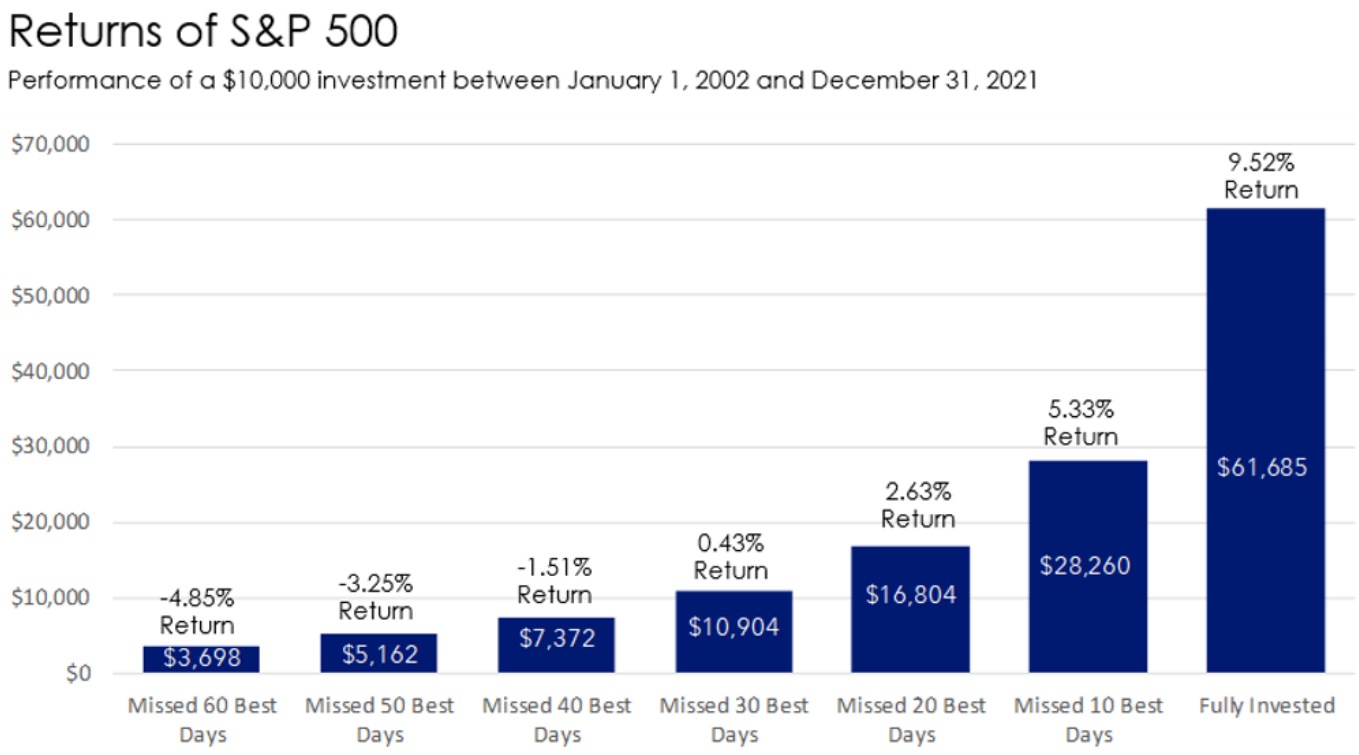
S&P 500 Bear Markets

Start Date	Start Price	End Date	End Price	Duration (Months)	Percent Change
9/16/1929	31.86	6/1/1932	4.40	32	-86.2%
3/10/1937	18.67	4/28/1942	7.47	62	-60.0%
5/29/1946	19.25	6/13/1949	13.55	37	-29.6%
8/2/1956	49.74	10/22/1957	38.98	15	-21.6%
12/12/1961	72.64	6/26/1962	52.32	6	-28.0%
2/9/1966	94.06	10/7/1966	73.20	8	-22.2%
11/29/1968	108.37	5/26/1970	69.29	18	-36.1%
1/11/1973	120.24	10/3/1974	62.28	21	-48.2%
11/28/1980	140.52	8/12/1982	102.42	20	-27.1%
8/25/1987	336.77	12/4/1987	223.92	3	-33.5%
7/16/1990	368.95	10/11/1990	295.46	3	-19.9%
3/24/2000	1527.46	10/9/2002	776.76	31	-49.1%
10/9/2007	1565.15	3/9/2009	676.53	17	-56.8%
2/19/2020	3386.15	3/23/2020	2237.40	1	-33.9%
1/3/2022	4796.60	6/30/2022	3785.30	6	-20.0%
			Average	**20**	**-38.1%**

Source: Strategas 6/14/22, Tocqueville research

Although the S&P 500 has now entered its seventh month of the current bear market, it may feel like twenty months already, leave alone a mere fourteen. The truth is, no one knows where the bottom is, and how long it will take to get there. While household and corporate balance sheets are in superior shape than they were in the 2008/9 period, when markets fell by more than fifty per cent, the balance sheet of the US Government is not. A prolonged increase in the rates our government pays to finance its

accumulated debt could well lead to a market with far more to fall. The interest expense on $30 trillion can get out of hand quickly. If it does, it could prove to be the sum of all fears for the investment class, and hardly only they. But it is also true that the precarious state of government finances has been the case for these past ten years, at least. Meanwhile, US treasuries have been and still remain far more appealing than those of other governments. Moreover, the yield curve suggests no such danger to the U.S. credit situation is imminent.



Source: J.P. Morgan Guide to Retirement 2022 p. 44

Back to our original question: Is now a time to sell? There are three important lessons to take from the above chart. The first is obvious. Bear markets come to an end. It may not feel like it now, but there will come a point when the market is at equilibrium and poised to rebound.

Second is the disparity of returns. While it certainly would have felt good (and far be it from me to be unsympathetic to psychic income) to sell out of everything seven months ago, failure to reinvest at the right time carries a significant penalty. Even much of the benefit from that fortuitous timing might have been captured by taxes. Certainly, that would have been the case for most investors at the end of 2021.

Third, trading is not investing. Trading ignores the long view and requires being right (or lucky) at least twice in every market cycle. Once is not enough. Alternatively, one could simply bet heavily when a “fat pitch” comes their way. It happens, but good luck with that approach. Truth is, neither strategy is

sustainable, and sustainability is what is required to preserve and grow wealth.

Consider the record of nearly 100 years of investing from the 1929 peak. Long term investors in the stock could have grown their money by 100-fold, and that is AFTER a nearly 90% drawdown in the several years that followed the crash. Those returns simply are not possible if one misses the biggest up days.

Timing the market is impossible. No one truly know when the bottom and or top will be. A path to succeeding in investing requires three characteristics: First, to remain focused on your investment objectives and long-term time horizon; Second, to remain disciplined in your investment process and philosophy; Third, be willing to invest against the mainstream view.

So, what to do if selling is not really an option? One of our favorite quotes comes from JP Morgan, who once said “In Bear Markets, Stocks Return to Their Rightful Owners.” Now is the time to upgrade portfolios and to take advantage of the fear that recent volatility has created. Do the valuation and analytical work and prune weaker holdings to make way for higher quality names that previously might have been too dear to own. Finally, be incremental in one’s approach. It is ok to be early so long as the initial investment leaves room for further investment should things move in the wrong direction at first. Again, the goal is not to create wealth, it is to preserve and grow it, there is no need to take unnecessary risk.

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Mr. Kleinschmidt joined Tocqueville in 2010, bringing with him a foundation in equity research and investment strategy. Prior to his tenure at Tocqueville, he worked as a securities analyst at Argus Research in New York City, where he focused on industrial and transportation sectors. He began his investment career at Clareville Capital Partners LLP, a London-based hedge fund, where he served as a research analyst supporting the firm's UK and European investment initiatives.

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