Bulls, Bears and Pigs

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So, the global stock markets have your attention. Whether you are focused on declining economic prospects in Europe, Emerging Markets' weakness or the recent slide in the U.S. stock market, we are all forced to contemplate something that may now be driving up beside us, not merely in the rear-view mirror…a stock bear market.

As a refresher, a "bull" market is when prices experience a sustained upward move. "Bear" markets are when they fall significantly. The textbook definition is a 20% decline in prices (you know, like the price of crude oil the past few weeks!). What are "Pigs" in Wall Street parlance? They are the ones that get too full of themselves and mistake their success as investors for their own genius. The world was full of pigs in 1999 and again in 2007. And now, in 2014?…oohh, I can smell the bacon.

There are generally two time frames for bull and bear markets. "Secular" markets last well over a decade. In this blog post I am focused on "Cyclical" Bear markets — the type that can potentially erase much of a big 5-year up move in the stock market averages (like the Cyclical Bull that started in March of 2009), and do so in a matter of months. The key point is that the types of up and down cycles we have seen throughout the past 20 years are very likely to continue for a long, long time.

Why do I reach that conclusion? Because of a combination of these three things, which have been gradually shaping the markets of this era since the mid-1990s:

1. Human nature's desire for instant-gratification in everything, especially when it comes to money. This is the reality of today's consumer and investor psyche. If you doubt this, set your watch for two months from now and see how popular the latest electronic gadgets are (regardless of price) come Christmas time.

2. High-Frequency Trading and a blurring of the difference between trading and investing – the speed at which dollars can change hands has created a set of market forces that were merely the fringes of the investor populace 20 years ago. I am also discouraged to report that I have seen a tendency for younger investors (students) who take an interest in the stock market doing so with a trader mindset. Investing, the lost art. Who would have thunk it?

3. The internet's information overload syndrome – I laugh every time a market commentator tries to say that everyone is bullish or everyone is bearish. With so much garbage commentary being flung around the web at break-neck speed, you can find nearly any opinion you want to back up your point. And unlike 20 years ago, everyone knows what everyone else is saying, thinking and doing. At least it seems that way. With the veil of nearly everything broken, I am convinced that the kind of feast/famine, herd mentality markets we have seen since 1995 are here to stay.

Since that time, we have had two 50%+ declines an three different occasions in which the market doubled. That's a lot for any era. And it is the one the current generation of investors has grown up with.

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