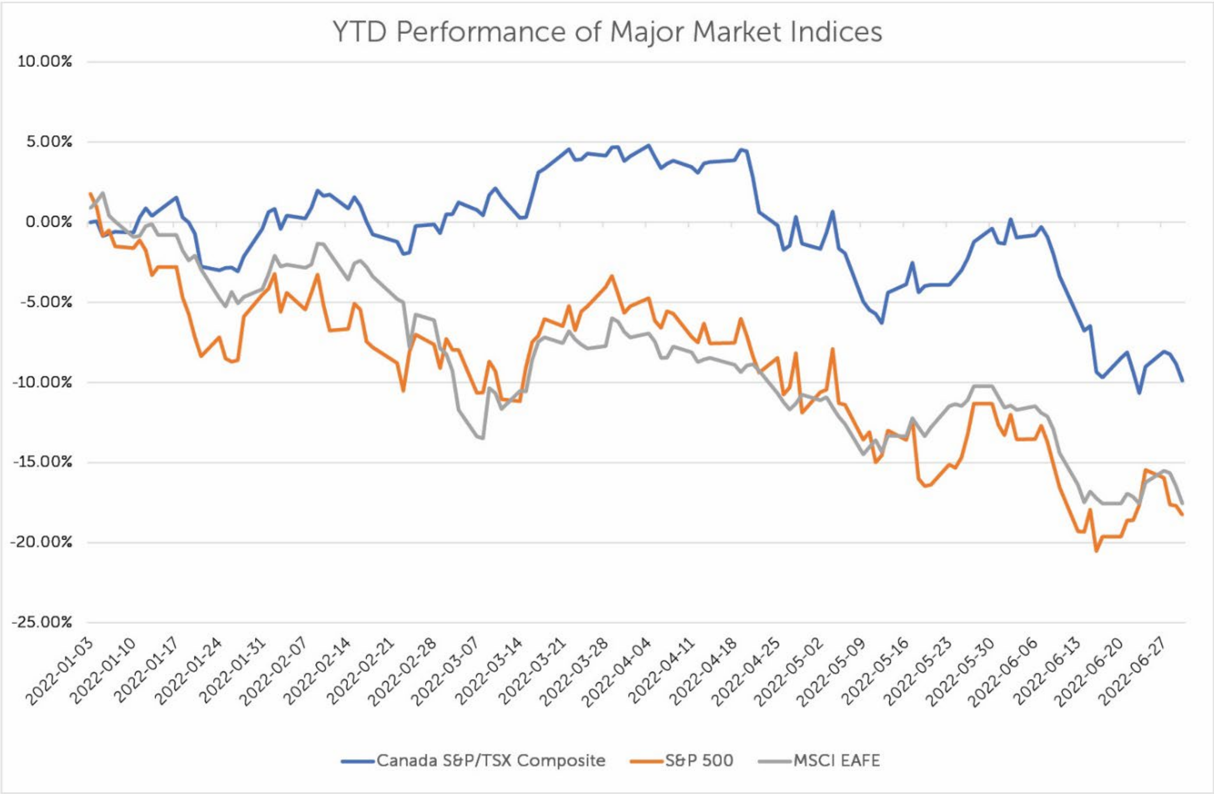
# The Bear Comes Out of Hibernation – July 2022

The last few weeks have been challenging for some investors as we entered a bear market. Just as coming across a bear in the woods could cause panic, it's natural to feel concern hearing negative market news. And just as with the woods situation, where your fears would be calmed by a guide who knows how to prepare for and respond to bears, you can trust your IAIC Portfolio Manager to guide you through this market event. We know bear markets.

## Bear Facts

A bear market is typically defined as a 20% drop from the most recent high. With the significant year-to-date declines seen in major equity indices, we have now entered bear territory.




Source: Factset

Bear markets tend to be short lived. According to Ned Davis Research, the average bear market lasts 289 days. By contrast, an average bull market is 991 days. The long-term average frequency between bear markets is 3.6 years, and while the average stock loss in a bear market is 36%, the average gain in a bull market is 114%.

Bear markets can have negative impacts, but over the last 92 years, stocks have been in positive territory 78% of the time. Historically, stock market gains after periods of weakness can be stronger than average.

It's also important to note that not all bear markets indicate an economic recession. Since 1929 there have been 26 bear markets, but only 15 recessions.

## Bear-prepared

It's important to realize that market indices don't necessarily track to how your individual portfolios are performing. First, the average IAIC portfolio isn't 100% invested in equity markets, nor is the equity component 100% invested in these market indices.

Most equities IAIC Portfolio Managers invest in are selected from our Core Pick List (CPL). The CPL consists of thoroughly analyzed and continually monitored companies characterized by solid fundamentals, strong financial health, and what we perceive to be a long-term competitive advantage in their industries. This equity selection approach has resulted in IAIC portfolios typically outperforming market indices in down-markets.

The types of companies experiencing the largest recent pullbacks are those whose previous stock prices weren't supported by their earnings -- in fact, many had negative earnings. Many were the "highflyers" of 2020 which have reset to much lower prices given their previous excessive valuations. Speculative stocks such as these don't meet the criteria of our disciplined CPL selection process. Our focus is investing in companies that are optimal to own over the long-term – regardless of short-term market fluctuations.

## The Bond Market

Bond prices (the market value for already-purchased bonds) typically fall when interest rates rise, which has happened in this current environment. However, falling market values don't impact the income (interest payments to maturity) on these already-purchased bonds. Nor does the face value of the bond change. The market value reflects what you would receive if you sold the bond on the open market. Given interest rates have increased, the market value will be lower than previously priced since a purchaser has the option of buying a new bond earning a higher rate.

If held to maturity, a bond holder will receive the full-face value back and earn the positive yield to maturity at the time of purchase – therefore incurring no losses. IAIC generally holds bonds on a shorter-term maturity schedule (a 5-year ladder) which allows us to reinvest bonds that are maturing this year into new bonds that offer a higher interest rate. This enables us to benefit from today's rising interest rates, generating more future income for the portfolio.

## Bear Upside

Many of IAIC's core holdings continue to pay and grow their dividends, meaning you're still earning income as we wait for stock prices to recover. In addition, some desirable companies are now trading at a discount, which we view as a buying opportunity for our long-term investment approach.

On the fixed income front, bond yields are rising and providing higher income than they have in recent years, making them more attractive.

While the bear is upon us, it's only a matter of time before it goes back into hibernation. Patience is key. As always, our focus is delivering well-diversified client portfolios built with high quality investments that stand the test of time. With our disciplined approach and continuous monitoring for market opportunities, we're confident we will again successfully navigate another volatile period.

* Your portfolio results may differ. We encourage you to speak with your Portfolio Manager if you have concerns.