



## Eclipses and Financial Markets

Watching the August 21st eclipse along the totality band brought home how traumatic the event must have been in earlier centuries. Daylight fading, temperatures dropping, and darkness coming over the land with no assurance that this too would pass would have been terrifying. Only by knowing this is a recurring cycle, created by the predictable movement of the earth, moon and sun, does an eclipse turn into a festival.



Bear markets need the perspective of knowledge as well if investors are to survive them and move on to the next phase of the market. Much like an eclipse, we need to understand that this is a recurring cycle in order to turn a down market into an opportunity for profit. While eclipses are far more predictable than human behavior and its impact on financial markets, we do know from experience that:

- (1) Bear markets are inevitable.** There is something in the human psyche that makes us prone to cycles of irrational exuberance followed by excessive negativism.
- (2) Bear markets do end.** Eventually prices are pushed down to a level at which smart money can see little downside to investing and demand begins to push prices back up.

By accepting the reality of bear markets, we can put in place strategies to detect increasing risk in the market and to limit losses when downturns begin. And, because we also understand that bear markets end and the sun will return, we can plan for capturing the upturn early in the cycle.

Just as bear markets are inevitable, in a capitalistic system, where the opportunity to seek personal profit exists, new uptrends in the market are inevitable. Given an opportunity to innovate, to build, and to offer products and services that in turn make one wealthier, human nature takes over and the upward climb begins once again.

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