**Waterstone Advisors, LLC**
**10 Brook Street**
**Walpole, MA 02081**
vha@waterstoneadvisorsllc.com
www.waterstoneadvisorsllc.com

April 2022

# The 2009 Bull Market is Aging

*Lessons from the Past 13 Years of Stock Market History, and a Look Forward*

---

Bull markets, like people, age.

The current bull market in stocks started in March 2009, just over 13 years ago. It marks one of the longest bull markets in the 232 year history of the U.S. stock market, along with those of the 1950s, 1980s and 1990s, among others.

During these past thirteen years, we have seen much in the way of once-in-a-generation events, and almost as much in the way of shakeups and tremors in the global economic, financial, and geopolitical systems. Periodically it is healthy to assess past events, to put the present into context, and to extract important lessons as we continue to invest for the future.

The 2009 bull market was born during a difficult period in U.S. and world history. In fact, it came during what was subsequently dubbed the Great Recession because of its severity, second only to the Great Depression of the 1920s and '30s. Like many recessions and bear markets, overconfident risk-taking was to blame for much of the damage leading to those downturns.

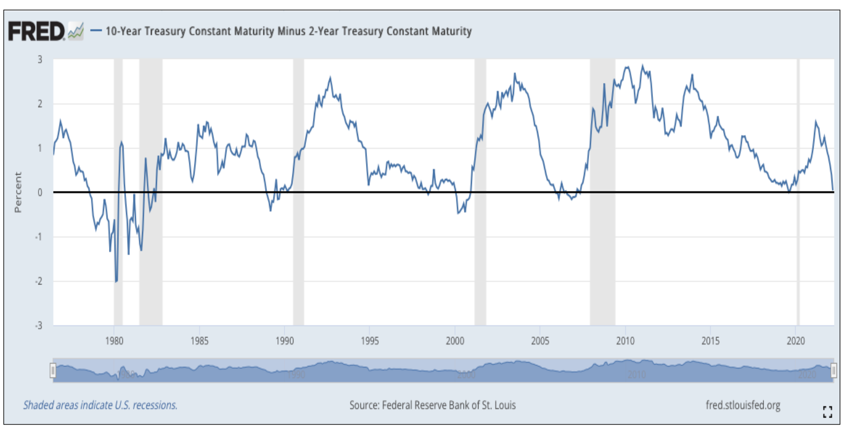
The 2007 – 2009 bear market caused stocks in aggregate to lose as much as 58% of their value from peak to trough in the span of 17 months. Ultimately, the year 2009 represented the nadir of the Great Recession, a time when Western Capitalism, like the Western Roman Empire of old, almost collapsed because of the barbarians within. These were the handful of big investment banks who prized irrational risk-taking and corporate profits more than the interests of their own clients. They certainly did not value the integrity of the most finely tuned financial system ever created. The international system that had for decades allowed the seamless exchange of financial assets from buyers to sellers, and vice versa, was put at risk. Like all commercial transactions, indeed like all human interactions, the global financial system was based on trust, and that trust had been broken by a few reckless firms.

To stabilize the nation and to keep it from complete collapse, the central bankers in Washington did what central bankers are supposed to do - they lowered interest rates as a reassuring signal to the world that all would be well. They encouraged risk-taking by any brave souls willing to step up to the plate at a difficult time in order to borrow and to invest. In essence, they encouraged spending by both investors and consumers. The Fed dropped interest rates to near-zero and kept them there until March of this year, last month, when they decided to raise the nation's base lending rate by 25 basis points, or 1/4 of 1%. The Fed's supportive strategy from 2009 onward worked. Along with fiscal stimulus from Washington, it kept the economy from crashing. But low rates ultimately encouraged irrational risk-taking by many companies and individuals, especially in the stock and housing markets. Both markets eventually reached bubble proportions, and are just now beginning to deflate.

Fast forward to 2018, a year in which Americans were subjected to a different kind of irrational risk-taking, namely the kind that comes from double-edged and mostly ineffective government trade policies relying on tariffs as a punitive tool in diplomacy. Not since the early 1930s had America adopted such a wide-ranging tariffs regime in an attempt to defend itself from perceived external threats to its economic well-being. The tariffs of the 1930s led America and the world into a deep depression, from which the stock market recovered only in the 1950s. The tariffs of 2018 are still working their way through the economy and are still in effect to one extent or another.

Now in 2022 an unanticipated war in Ukraine has the stock market concerned. Investors are left to speculate what lasting effects this latest bout of irrational risk-taking by a group of regressive leaders in a far-off land will have on world trade, interest rates, and inflation. How will those important economic factors affect stock prices here in the U.S.?

Unfortunately, the answer may be that more restricted world trade, rising interest rates, and high levels of inflation, will tip the U.S. economy into a recession.




We may already be seeing signs of this as the Treasury yield curve inverts. An inverted yield curve is an indication that bond investors are uncertain about the near-term and may be anticipating the onset of a recession. In order to compensate for their uncertainty, they reach for the safety and income that longer-dated Treasury securities offer them. In doing so, they raise the prices of those long-dated securities, causing their yields to fall below those of shorter-dated Treasuries. This simple relationship is illustrated in the chart above, where the gray bars indicate periods of recession, and the crossover of the line below 0 marks an inversion. While the inverted yield curve is not a perfect prognosticator of future economic trends, it has predicted a number of recessions 6 to 18 months out, and should be noted.

A recession would mean that corporate profits in aggregate have dropped, along with sales of products and services. Declining earnings growth pressures share prices lower. A correction or a full-fledged bear market in stocks then becomes the result.

If there is a silver lining in this brief look-back over the past 13 years, and indeed over the whole history of the U.S. stock market if we were to look back that far, it is that in the span of time the stock market digests the irrationality of individual events, focuses on corporate earnings growth, and trends higher. That has been the pattern for the past 232 years in America as the nation's businesses have grown and their productivity has risen.

Warren Buffett's sage perspective on this point, which I have quoted in the past, is always helpful in providing context. He said, "In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497." Buffett's observations, while not a guarantee of things to come, do offer encouragement. They remind us that successful investing requires the key ingredients of time and a long-term perspective.

In its secular movements higher, the stock market is cyclical. The end of one bull market leads to the start of a bear market that in turn leads to an altogether new bull market leading to new highs over time. Bull markets create wealth, whereas bear markets offer patient and discerning investors new opportunities to purchase quality companies at lower prices.

As the 2009 bull market ages, prudent investors should anticipate the arrival of a bear market, and plan for the next bull market that will follow. In the meantime, we will continue to invest selectively, always keeping an eye on the long-term.

V. Henry Astarjian