Calm, Steady and Common Sense Series

Is There Hope in a Bear Market?

White Paper

The **Calm, Steady & Common Sense Series** explores how using emotion as your investment guide could cost you return on your investments.

The **Is There Hope in a Bear Market?** white paper examines how in a bear market, historical evidence as well as academic research, seems to suggest that staying in the market as opposed to panicking and selling out of your investments could present you with valuable return on your investments and may meaningfully impact your net worth.

A **Bear Market** is defined as a market that is down 20% or more. If you are reading this in the middle of a bear market, or a market that has taken a rather steep loss, we suggest that there might be hope.

The key is to work with your financial advisor to re-examine your financial plan and, above all, do not panic out of the market.

While no two markets are the same and past performance is never an indication of future results, historical evidence, as well as academic research, seems to suggest that staying in the market could present you with a valuable return on your investment and may meaningfully impact your net worth.

In past papers, we examined J.P. Morgan Asset Management's study showing how missing only 60 of the best days of the S&P 500 in a 20-year period that ended on December 31, 2018, would have delivered an annual rate of return of -7.41% compared to a positive 5.62% annual compounded rate of return for the investor who held firm for those 20 years despite bear markets like 2000, 2001, and 2002 and the second worst decline in the stock market's history in 2008/early 2009.[1]

We also cited a study by Dalbar that researched the movement of money in and out of mutual funds, which suggested that investors generally move into their equity funds after the market has experienced a rise in price and typically sell out of their funds after the market has fallen.[2] Staying in the market during a bear market may allow you to sidestep an undesirable buy high/sell low investment pattern.

It is our view that the primary reason for hope lies in the understanding that the stock market generally rises and falls in cycles, typically moving in large chunks and many times in what we consider short time periods.

Said differently, from a historical basis, once the market hits a low, it rises quickly and in rather large percentages. This could mean that you have hope for some potentially strong days in the market ahead of you.

To illustrate this point, the chart on the next page explores the last 12 bear markets since World War II. It examines the returns of the S&P 500 in what we consider to be a short one month, three month, six month and twelve month periods from when the S&P 500 hits its bear market low point.

It is interesting to note the large amount the market historically has moved in a relatively short time period.[3]

Based on these historical results, the S&P 500 averages a 12.3% return one month after the market hits bottom, 17.2% three months later, 24.9% six months later and an impressive 38.% twelve months later.[3]

Some investors may find it difficult to be optimistic as the stock market declines. We certainly understand this. The key is not to panic and to understand that there is possibly some hope on the horizon.

Returns After the Last 12 Bear Markets Since World War II

Date the Bear Market Ends	Return One Month Later	Return Three Months Later	Return Six Months Later	Return One Year Later
May 14, 1947	9.9%	12.3%	11.4%	18.9%
June 18, 1949	9.1%	16.2%	23.0%	42.1%
October 22, 1957	4.8%	5.7%	9.8%	31.0%
June 26, 1962	8.5%	7.3%	20.5%	32.7%
October 7, 1966	10.3%	12.3%	22.1%	32.9%
May 26, 1970	6.0%	17.2%	22.8%	43.7%
October 3, 1974	18.6%	13.5%	30.9%	38.0%
August 12, 1982	18.1%	36.2%	44.1%	58.3%
December 4, 1987	14.3%	19.4%	19.0%	21.4%
October 11, 1990	6.2%	6.7%	27.8%	29.1%
October 10, 2002	15.3%	19.9%	12.5%	36.1%
March 9, 2009	26.8%	40.1%	54.5%	72.2%
Averages	**12.3%**	**17.2%**	**24.9%**	**38.0%**

Source: Bloomberg "S&P 500 bounces off Bear" and Dunham & Associates

Disclosures

[1] J.P Morgan Asset Management

[2] Dalbar "Qualitative Analysis of Investor Behavior"

[3] Bloomberg, "S&P 500 bounces off Bear" and Dunham & Associates

Investments are subject to risks, including possible loss of principal. Investors should consider the investment objectives, risk factors and expenses of any investment carefully before investing. Diversification does not guarantee profit or ensure against loss.

The S&P 500, or the Standard & Poor's 500, is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 Index components and their weightings are determined by S&P Dow Jones Indices. It differs from other U.S. stock market indices, such as the Dow Jones Industrial Average or the Nasdaq Composite index, because of its diverse constituency and weighting methodology. It is one of the most commonly followed equity indices, and many consider it one of the best representations of the U.S. stock market, and a bellwether for the U.S. economy. You cannot invest directly in an index.

All examples are hypothetical and are for illustrative purposes only. We encourage you to seek personalized advice from qualified professionals regarding all personal finance issues. The solution for an investor depends on their and their family's unique circumstances and objectives.

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