Informed Investor Series

Understanding a Bear Market
White Paper

The **Informed Investor Series** explores how better understanding markets may help you to make the most informed investment decisions possible.

This white paper, **Understanding a Bear Market**, examines past stock market declines to help investors better understand bear markets and how the headlines surrounding them may lead to worry as investors imagine the bleakest outcome.

Bestselling author and creativity coach, Dan Zadra, once said, “Worry is the misuse of the imagination.”

Due to the emotional nature of a bear market, we might not only be fighting the headlines we read, but how those headlines may lead to worry as we imagine the bleakest outcome. As such, an understanding of bear markets by examining past stock market declines might help us gain a better perspective.

A bear market occurs when the stock market has lost 20% or more over an extended period. Typically, bear markets are a result of economic challenges such as a recession or high unemployment.

For our discussion today, we will focus on shedding light on the historic information that past bear markets might provide in an effort to possibly help us better understand this cycle of the stock market.

While it is difficult to eliminate the worry that Dan Zadra refers to in a bear market, perhaps by understanding the nature of past bear markets, we might avoid the “misuse of imagination” he mentions.

The chart below provides almost 70 years of stock market information using the S&P 500 as our guide.

Column 1 shows when the S&P 500 peaked.

Column 2 shows when the market hit bottom.

Column 3 shows how much the S&P 500 lost in value in that time period.

Columns 4 and 5 show how long the bear market lasted as measured by days and years.

Column 6 shows the return of the S&P 500 12 months after the market hits bottom.[1]

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	
Market Peak	**Market Bottom**	**% Loss**	**# of Days**	**# of Years**	**Cumulative Return 12 Months After Market Hits Bottom**	
May 29, 1946	June 12, 1949	-15.64%	1,110	3.0	June 12, 1950	58.14%
August 2, 1956	October 22, 1957	-17.78%	446	1.2	October 22, 1958	36.23%
December 12, 1961	May 28, 1962	-22.43%	167	0.5	June 28, 1963	30.37%
February 9, 1966	October 7, 1966	-20.21%	240	0.7	October 7, 1967	37.29%
November 29, 1968	May 26, 1970	-32.58%	543	1.5	May 26, 1971	48.94%
January 11,1973	October 3, 1974	-44.80	630	1.7	October 3, 1975	44.43%
November 28, 1980	August 12,1982	-20.16%	622	1.7	August 12, 1983	66.11%
August 25,1987	December 4, 1987	-32.80%	101	0.3	December 4, 1988	26.00%
March 24, 2000	October 9, 2002	-47.38	929	2.5	October 9, 2003	36.14%
October 9, 2007	March 9, 2009	-55.22%	517	1.4	March 9, 2010	72.26%
February 19, 2020	March 23, 2020	-33.79%	33	0.1	March 23, 2021	77.78%
Averages		**-31.16%**	**485**	**1.3**	**48.55%**	

Source: Dunham & Associates Investment Counsel, Inc. May, 2022

Here is what the historical numbers tell us:

- The average loss in a bear market is -31.2%, which certainly may cause worry.
- The average length of a bear market is 1.3 years.
- The longest bear market was 3 years in length.
- The shortest bear market was 1 month in length.
- The average return of the S&P 500 12 months from when the bear market hits bottom is 48.6%.

While no two markets are the same and past performance is not an indication of future results, in our view, one of the most important points that can be implied by the historic nature of a bear market is that the market will likely not stay down forever. Historically, we have seen that it has typically cycled higher.

Also worth noting are the 12 month returns after the market hits bottom. Past bear markets have historically shown strong results one year after the market hits bottom. It would suggest that selling your stock investments after a significant pullback in the stock market may hurt your investment results. This is because you will be locking in your losses and may not be a participant when the market improves. It is worth noting that the historical average return for the stock market 12 months after it hits bottom is 48.6%. Selling your stocks after they have declined may mean missing potentially strong 12 month returns.

For those who maintain a long-term focus and do not panic out of the market when prices drop, an attractive return could potentially be your result.

If you are reading this in the middle of a significant market pull back, we suggest that you do not use your imagination to forecast the bleakest potential outcome but instead understand the historical nature of past bear makets and consider remaining invested in the stock market.

Source:

(1) Bloomberg and Dunham & Associates - May, 2022

Disclosures

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 Dow Jones Index is an index of certain stock prices on the New York Stock Exchange, computed by the Dow Jones Publishing Company as a weighted average of the prices of specific stocks in certain categories. Three indices are maintained, the Industrials, the Transportations and the Utilities. When used without qualification, the term usually refers to the Down Jones Industrial Average.

The NASDAQ Composite Index is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks.

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.

A bull market indicates a sustained increase in price, whereas a bear market denotes sustained periods of downward trending stocks - typically 20% or more. The term "bull vs bear" denotes the ensuing trends in stock markets - whether they are appreciating or depreciating in value - and what is the investors' outlook about the markets in general. Bull markets generally coincide with periods of robust economic growth; investor confidence is on the rise, employment levels are generally high, and the economic production is strong. During the bearish phase, companies begin laying off workers, leading to a rise in unemployment and, consequently, an economic downturn.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market.

Past results are not indicative of future performance and are no guarantee that losses will not occur in the future. Future returns are not guaranteed and a loss of principal may occur.

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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