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RESEARCH BRIEF:
A SYNOPSIS OF HISTORICAL BEAR MARKETS

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On June 13th, the S&P 500 Index declined nearly 4% and finished the day down approximately 22% from its all-time high closing level from early January 2022. Thus, the S&P 500 officially entered bear market territory (defined by a 20% decline from an all-time high). In this brief analysis, I look back at historical bear markets since WWII to provide historical context on how the stock market has fared following the start of past bear markets. Specifically, I sought to address a variety of key questions that are no doubt on the minds of investors today:

1. How much longer does it typically take for the market to bottom out?
2. How much further does the market typically decline?
3. How long does it typically take for the market to reclaim its prior peak?

The table below summarizes a few key points about each of the 10 previous S&P 500 Index bear markets since WWII.

Figure 1: S&P 500 Index Bear Markets Since WWII

Market Peak	Start of Bear Market (Market Down 20% from Peak)	Market Trough	Days From Start of Bear Market to Market Trough	Additional Decline From Start of Bear Market to Market Trough	Max Decline from Market Peak	Previous Peak Reclaimed	Months from Start of Bear Market to Reclaim Previous Peak	% Gain From Startof Bear Market to Reclaim Previous Peak
08/02/1956	10/21/1957	10/22/1957	1	- 0.4%	- 21.5%	09/24/1958	11	27.2%
12/12/1961	05/28/1962	06/26/1962	29	- 5.7%	- 28.0%	09/03/1968	15	30.9%
02/09/1966	08/29/1966	10/07/1966	39	- 1.8%	- 22.2%	05/04/1967	8	26.6%
11/29/1968	01/29/1970	05/26/1970	117	- 19.1%	- 36.1%	03/06/1972	25	26.9%
01/11/1973	11/27/1973	10/03/1974	310	- 34.9%	- 48.2%	07/17/1980	79	26.9%
11/28/1980	02/22/1982	08/12/1982	171	- 8.2%	- 27.1%	11/03/1982	8	28.0%
08/25/1987	10/19/1987	12/04/1987	46	- 0.4%	- 33.5%	07/26/1989	21	50.4%
03/24/2000	03/12/2001	10/09/2002	576	- 34.2%	- 49.1%	05/30/2007	74	29.7%
10/09/2007	07/09/2008	03/09/2009	243	- 45.6%	- 56.8%	03/28/2013	56	26.1%
02/19/2020	03/12/2020	03/23/2020	11	- 9.8%	- 33.9%	08/18/2020	5	36.6%
01/03/2022	06/13/2022	??	??	??	??	??	??	??

Note: S&P 500 Index returns reflect price only returns and do not include dividends.
Source: S&P 500 Index data from Yahoo Finance.

I categorized the past 10 bear markets into three types, broadly defined by how much "worse" things ultimately got, jointly in terms of how much further the market fell and how long it took for it to bottom out:

- Mild (Yellow): Four of the bear markets (1957, 1962, 1966 and 1987) saw the situation improve almost immediately. In these instances, the market bottomed out within two months of the start of the bear market and experienced only limited further declines of less than 6%. Not surprisingly, the market tended to recover fairly quickly following the start of these bear markets with the market making a new all-time high within 1-2 years.

- Moderate (Orange): During three of the bear markets (1970, 1982 and 2020) things got a bit worse before they got better with the market declining by an additional 8-20% over a period as short as a few days (2020) to 3-4 months (1970 and 1982). Interestingly, the market also recovered fairly quickly, as the market went on to make new all-time highs within two years or less.

- Severe (Red): Lastly, there were the three "major" bear markets (1973, 2001 and 2008) where things became much more painful in the months following the official start of the bear market. In these instances, the market declined by a further 30% or more over the next 8-20 months. Not surprisingly, it took the market much longer to recover from these more severe declines, as the market took 4-7 years from the start of the bear market to reclaim its previous peak. But recover it ultimately did—a point that's worth stressing and remembering especially during the darkest days of a bear market.

Next, I examined the market's performance over the one, two and three years following the official start of the bear market. The results are presented in the table to the right.

The table reveals that on average, the market has historically performed quite well overall in the years following the start of a bear market. Put simply, the start of a bear market has in retrospect turned out to be a good time to buy for a long-term investor, on average. Of course, the three "major bears" that began in 1973, 2001 and 2008 stand as clear exceptions to the average.

Lastly, I'll address what I consider to be a very natural desire among most investors thinking about using a bear market as an opportunity to add to their stock holdings—the desire to identify the precise bottom of the market as *the* time to buy. In other words, the desire to find the *best* time to buy.

Figure 2: S&P 500 Index % Change Following the Start of a Bear Market

Start of Bear Market	Next 1 Year	Next 2 Years	Next 3 Years
10/21/1957	30.1%	44.9%	38.5%
05/28/1962	26.2%	45.5%	60.7%
08/29/1966	24.4%	35.3%	25.1%
01/29/1970	11.2%	21.2%	38.5%
11/27/1973	- 28.8%	- 4.9%	4.4%
02/22/1982	32.9%	40.1%	61.7%
10/19/1987	22.4%	59.7%	38.5%
03/12/2001	- 2.3%	- 31.9%	- 3.4%
07/09/2008	- 29.2%	- 17.8%	5.0%
03/12/2020	57.2%	69.4%	
Median	23.4%	37.7%	38.5%

Note: One year = 250 trading days. S&P 500 Index returns reflect price only returns and do not include dividends.
Source: S&P 500 Index data from Yahoo Finance.

As a general rule, research and experience has led me to conclude that attempting to time the bottom is a flawed strategy for two principal reasons: (1) the bottom does not loudly announce itself when it arrives; rather, it can only be identified in retrospect and (2) missing the bottom by only a short period can prove to be quite costly in terms of missed returns as the rebound from the bottom has historically been strong and swift.

The table below speaks directly to the second of these two points. Specifically, it examines the performance of the S&P 500 Index in the months following the market bottom during each of the past 10 bear markets and reveals that the market has historically "bounced" quite swiftly and strongly from its cyclical trough. On average, the market has gained more than 15% during the 20 trading days (roughly equal to one month) following the bottom and more than 20% during the 125 trading days following the bottom (equivalent to six months). As is usual with averages, the average conceals a bit of variability across the individual instances, but the general rule holds—rebounds from the bottom have historically been robust and rapid.

Figure 3: S&P 500 Index % Change Following Bear Market Trough

Start of Bear Market	Market Trough	Next 20 Trading Days	Next 60 Trading Days	Next 125 Trading Days
10/21/1957	10/22/1957	2.4%	6.1%	9.8%
05/28/1962	06/26/1962	7.9%	11.9%	19.7%
08/29/1966	10/07/1966	10.4%	11.5%	20.5%
01/29/1970	05/26/1970	7.9%	11.1%	19.7%
11/27/1973	10/03/1974	18.7%	7.8%	30.9%
02/22/1982	08/12/1982	18.1%	38.8%	42.3%
10/19/1987	12/04/1987	15.5%	19.7%	19.0%
03/12/2001	10/09/2002	18.9%	19.6%	11.5%
07/09/2008	03/09/2009	23.5%	27.7%	48.3%
03/12/2020	03/23/2020	22.3%	39.2%	48.4%
	Median	16.8%	15.7%	20.1%

Note: S&P 500 Index returns reflect price only returns and do not include dividends.
Source: S&P 500 Index data from Yahoo Finance.

For investors contemplating deploying additional capital into stocks in light of the market's recent declines, instead of asking yourself "is now the best time to buy?" consider reframing the question to "is now a good time to buy?" I believe the historical evidence outlined in above suggests that the answer to that question is "yes." Ultimately, I believe that long-term investors will be rewarded for acquiring real ownership stakes in publicly traded companies and from betting on the upside that comes from innovation and productivity improvements. That said, prospective buyers should do so knowing that it's quite possible that things get worse before they get better and that there will be bumps along the way. Neither I nor anyone else possesses a crystal ball that can divine the near-term movements of the stock market—thus is the cold reality of investing in stocks. As Voltaire said, "Doubt is an unpleasant condition, but certainty is absurd."

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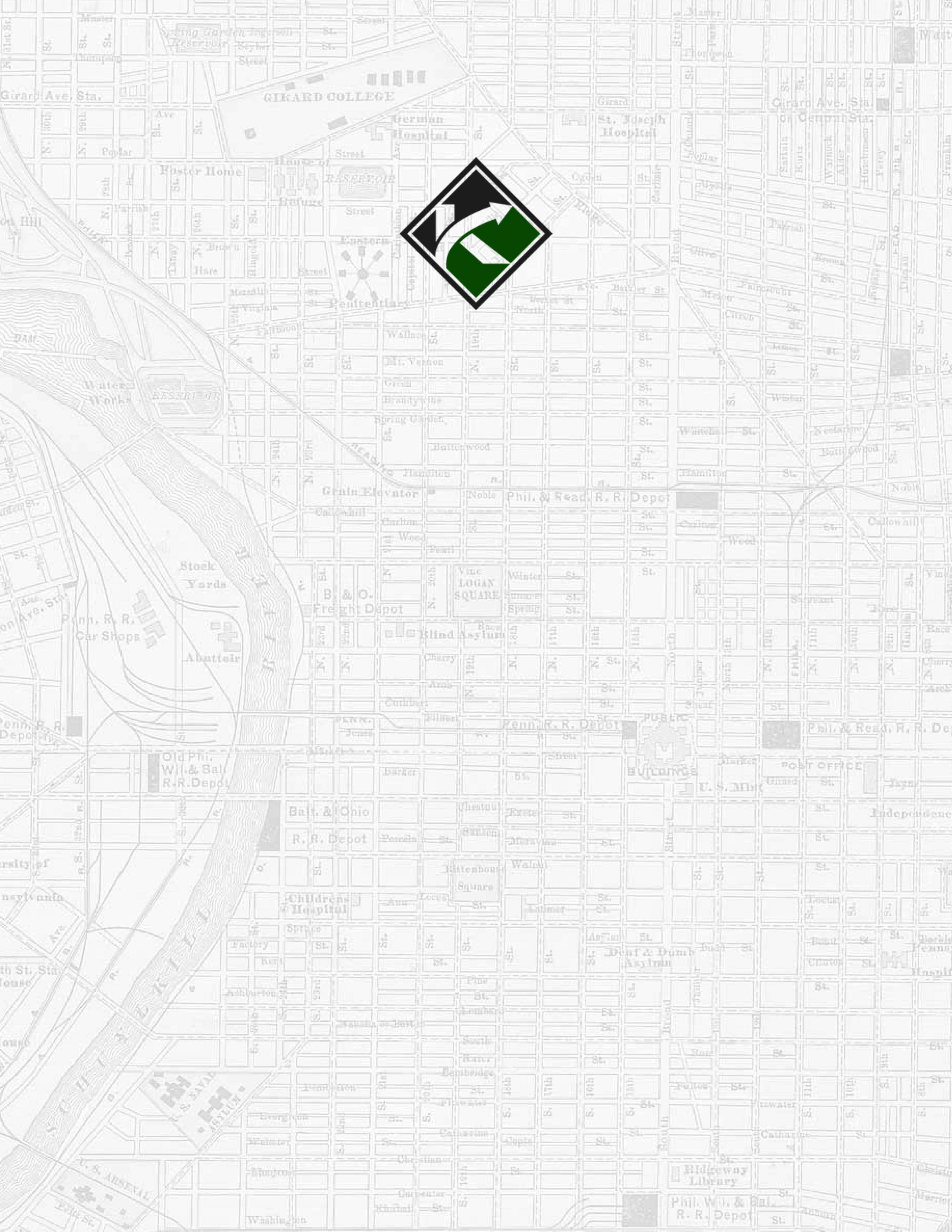
The S&P 500 Index is a gauge of the large-cap U.S. equity market. The index includes 500 leading companies and covers approximately 80% of the U.S. equity market's available market cap.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