

September 2009 *MoneyMinute* – Bear Market History

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“The further we look back, the further we may see ahead.”

– Winston Churchill

“The only thing new in the world is the history you do not know.”

– Harry Truman

This month we review the bear markets in the post-WWII era. A bear market is defined as about a 20% drop in the stock market, and we'll use the S&P 500 index as a measure of the markets.

Market Peak	Market Trough	% Return	Duration	S&P 500 at Peak	S&P 500 at Trough
5/29/46	6/13/49	-30%	36.5 months	19.3	13.6
8/2/56	10/22/57	-22	14.5	49.7	39.0
12/12/61	6/26/62	-28	6.5	72.6	52.3
2/9/66	10/7/66	-22	8.0	94.1	73.2
11/29/68	5/26/70	-36	18.0	108.4	69.3
1/11/73	10/3/74	-48	20.5	120.2	62.3
9/21/76	3/6/78	-19	17.5	107.8	86.9
11/28/80	8/12/82	-27	20.5	140.5	102.4
8/25/87	12/24/87	-34	4.0	336.8	223.9
7/16/90	10/11/90	-20	3.0	369.0	295.5
7/17/98	8/31/98	-19	1.5	1186.8	957.3
3/24/00	10/9/02	-49	30.5	1527.5	776.7
10/9/07	3/9/09	-57	17.0	1565.1	676.5

A few things to note from the data:

- The market has gone down an average of 30%, 13 times in 63 years. That's one **bear market about every five years.**
- Even though economic events in some of the bear market seemed to portend the end of life as we know it, **the market has recovered every time and gone on to new highs.**
- Because this chart is based on the price of the S&P 500 index and excludes reinvesting dividends, it makes both bear markets and bull markets look worse than they really were. The media does not understand this detail, and so **they report a worse-than-reality scenario** in the news.
- The S&P 500 is not very diversified, so **broader portfolios should have better results.**

At ICM we want our clients to be aware of bear markets, as they are a fact of life. Our job is to develop an appropriate use for your monetary assets so that they work as hard as you do.

When you use stock market investments, bear markets come and go with regularity. We all must be prepared for them and live through them.

Thanks to Nick Murray in his book, *Behavioral Investment Counseling*, for the inspiration for this topic.

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