Bear Market Recoveries: Stay Invested

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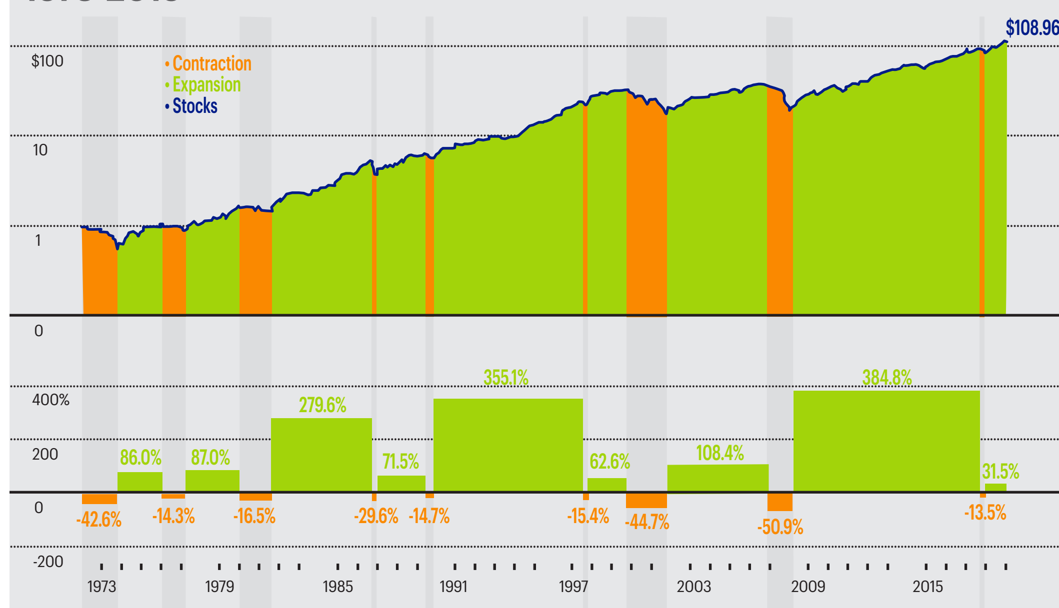
THE EFFECTS OF THE COVID-19 CRISIS have been abrupt and wide ranging. As of March 23, the S&P 500 had declined nearly 30 percent from its highs just a few weeks before. But while the picture may seem bleak at present, history tells us we will come through this crisis stronger, more educated, and better prepared for similar crises. A look to our past might shed some light as to what the future might hold for investors.

Stock Market Contractions and Expansions* 1973-2019



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History tells us we will come through this crisis stronger.

The stock market is cyclical. There are periods of contraction and expansion. There have been eight market downturns in the last 47 years. While some periods of decline have been severe, the overall market has grown over time. No one can predict when the overall market will contract. But looking at historical data, we can gain insight and perspective on what a recovery looks like and what we could expect after this recent volatility.

The following chart shows the S&P index has often seen significant double-digit returns in the years following a bear market. In looking at the last eight bear-market lows, the average returns for the following year are 40.31 percent. This figure is stunning, but consider the three, five and 10-year average annual returns after market bottoms: 16.58 percent, 14.13 percent, and 9.71 percent respectively. The statistics demonstrate the importance of staying invested for the long term.

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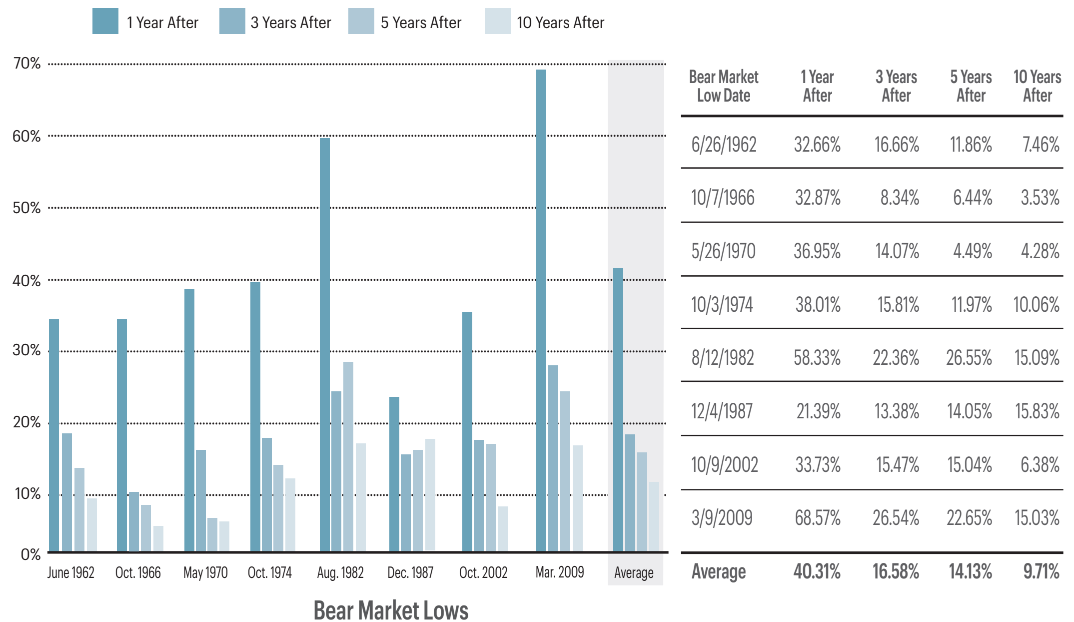
S&P 500 Index Price Returns After Bear Market Lows**



Bear Market Low Date	1 Year After	3 Years After	5 Years After	10 Years After
6/26/1962	32.66%	16.66%	11.86%	7.46%
10/7/1966	32.87%	8.34%	6.44%	3.53%
5/26/1970	36.95%	14.07%	4.49%	4.28%
10/3/1974	38.01%	15.81%	11.97%	10.06%
8/12/1982	58.33%	22.36%	26.55%	15.09%
12/4/1987	21.39%	13.38%	14.05%	15.83%
10/9/2002	33.73%	15.47%	15.04%	6.38%
3/9/2009	68.57%	26.54%	22.65%	15.03%
Average	**40.31%**	**16.58%**	**14.13%**	**9.71%**

Source: Bloomberg. Performance is price return only (no dividends). Past performance is no guarantee of future results. For illustrative purposes only and not indicative of any actual investment. Returns are average annualized returns. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index.

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Many longer-term professional investors subscribe to the theory that, “time in” the market is a better strategy than, “timing” the market. Consider the famous bet that Warren Buffet made in 2007 with a hedge fund manager. Buffet claimed that his bet on a broad-based market index would outperform a basket of hedge fund managers over a 10-year period. Buffet bought an S&P 500 index and held his investment for the duration of the wager. At the end of the decade, Buffet outperformed the basket of hedge funds by a wide margin.

The Warren Buffet wager is one example of the importance of staying invested over the long term. Investors who try to time the market often run the risk of losing out on remarkable returns during a recovery period. The following Morningstar chart demonstrates the folly of trying to time the market after the most recent global financial crisis.

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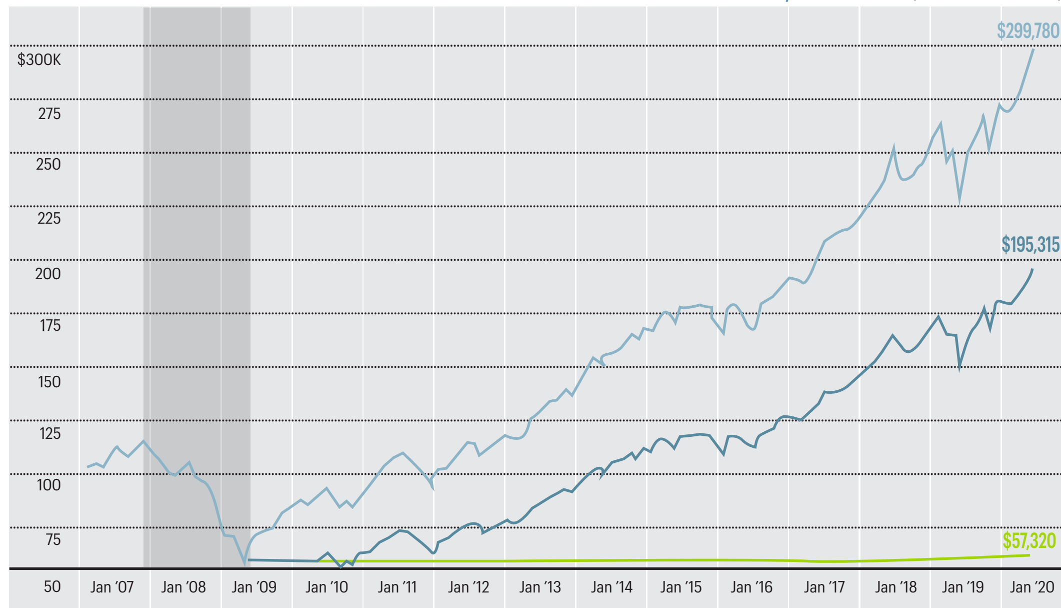

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It is important to note the disclaimer: *Past performance is never a guarantee of future results.* However, performance over the long term can be a fairly good indicator of what we might expect in the years to come.

IN SUMMARY:

1. While it is difficult to make decisions when there are unknown variables, don't panic. Often it is emotional short-term decisions that have long-term detrimental effects on the performance of a portfolio.

2. Volatility is nothing new. Periods of steep declines are a normal part of the market cycle. Since 1973 the markets have fallen more than 10 percent eight times. Sometimes these declines from peak to trough have been even more substantial. In all these instances, there has been a strong rebound.

3. Until the spread of Covid-19, the economy has been strong. We have had a strong labor market. Energy prices have been low. Corporate earnings have been strong. All leading indicators have been positive.

4. At HBKS®, we build portfolios to provide our clients with downside protection during volatile markets. Diversified portfolios often include fixed income investments designed to preserve capital and limit the effects of market stress.

5. You are not alone. HBKS is here to assist and answer any questions you might have regarding your portfolio, financial plan, or otherwise. It is important to maintain a long-term perspective. A good financial plan is designed to weather short-term volatility.

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