Don’t Fear the Bear

Investment Strategy Team

When stock prices begin falling dramatically, you may become concerned and feel like your only option is to sell to limit losses. We disagree – as a long-term investor, the difference between success and failure may be determined by your actions during a stock market decline, and selling may reduce, rather than raise, your chances of success.

It’s unlikely you’ll ever meet a real bear in everyday life. However, as the table below shows, if you’re a long-term investor, you’ll almost certainly experience many bear markets. When investing, we recommend you keep the following in mind: Stock market declines are common, occur without warning and end unexpectedly. But they can also present opportunities for long-term investors to buy stocks and quality mutual funds at lower prices.

Declines in the Dow Jones Industrial Average

	Dip (5% or more)	Correction (10% or more)	Bear (20% or more)
Number	400	127	32
Per Year	3.3	About 1.1	About 1 every 3 years

Source: Ned Davis Research, 1/2/1900–12/31/2019.

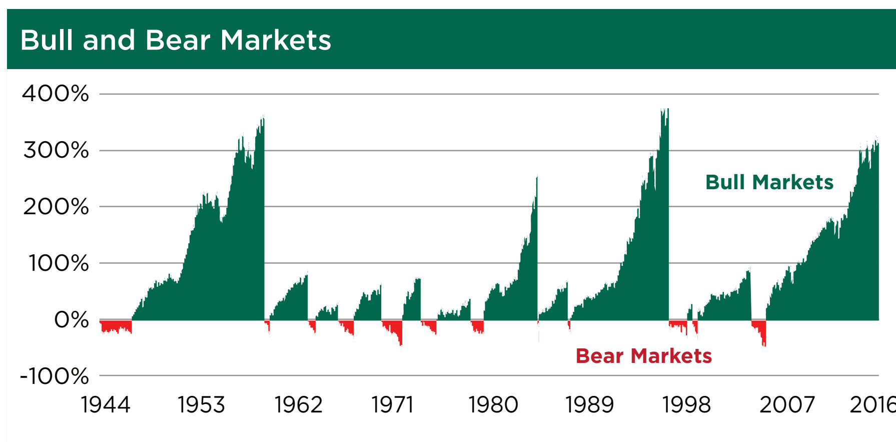
Past performance does not guarantee future results. The Dow is an unmanaged index and cannot be invested into directly. Copyright © 2019 Ned Davis Research, Inc. All rights reserved. Further distribution prohibited without prior permission.

Despite many pullbacks along the way, the Dow Jones Industrial Average (Dow) has had an average annual return of 9.9%, including dividends, since 1900. So instead of worrying about the timing of the next bear market, prepare your portfolio today with an appropriate mix of quality investments so you can stay invested in both bear and bull markets over time.

What Bull and Bear Markets Look Like

The chart below shows bull and bear markets in the Dow since 1946. The green-shaded areas above the 0% line are bull markets, and the red-shaded areas below it are bear markets – a decline of more than 20%. You’ll notice that bear markets are shorter than bull markets. On average, bear markets last about 15 months with an average loss of about 32%. Bull markets, on average, last nearly five years (54 months) with an average gain of about 130%. Bear markets eventually come to an end, which is one reason we recommend you stay calm and keep a long-term perspective.

Bull and Bear Markets



Source: Bloomberg, 1/1/1946–2/10/2020.

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A bear market is defined as a prolonged stock market decline, usually 20% or more, almost always triggered by unexpected events or economic conditions. So investors can frequently be caught off guard and react to media reports of uncertainty and worst-case scenarios.

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During a recent bear market, the Dow declined 53.8% from its high in October 2007, at the time the largest drop since the 1930s. In contrast, the average bear market decline has been 32% since 1946. This bear market was harsh but reasonably short – it lasted 17 months, similar to the average of 15 months. While you might think it's prudent to prepare for another severe bear market like the one in 2007–2009, instead realize that such extreme bear markets are infrequent. Only two of the 12 bear markets since 1946 have had declines of 40% or more.

In addition, severe bear markets tend to be followed by sharp rebounds. In each case, when stocks dropped 40% or more, they rebounded by more than 33% during the first year of the upswing.* Whether they're severe or mild, long or short, bear markets tend to recover just as abruptly as they start.

Since no one knows when the stock market will begin to rebound, and each recovery is generally accompanied by predictions that it won't last, our advice is to stay invested so you don't have to decide when to get back into the market. Investors who reinvest dividends or are able to add to their investments during bear markets tend to be even better positioned for any rebound because they've added to their stocks when prices were down.

*Sources: Edward Jones calculations, Bloomberg and Dow. Past performance does not guarantee future results.

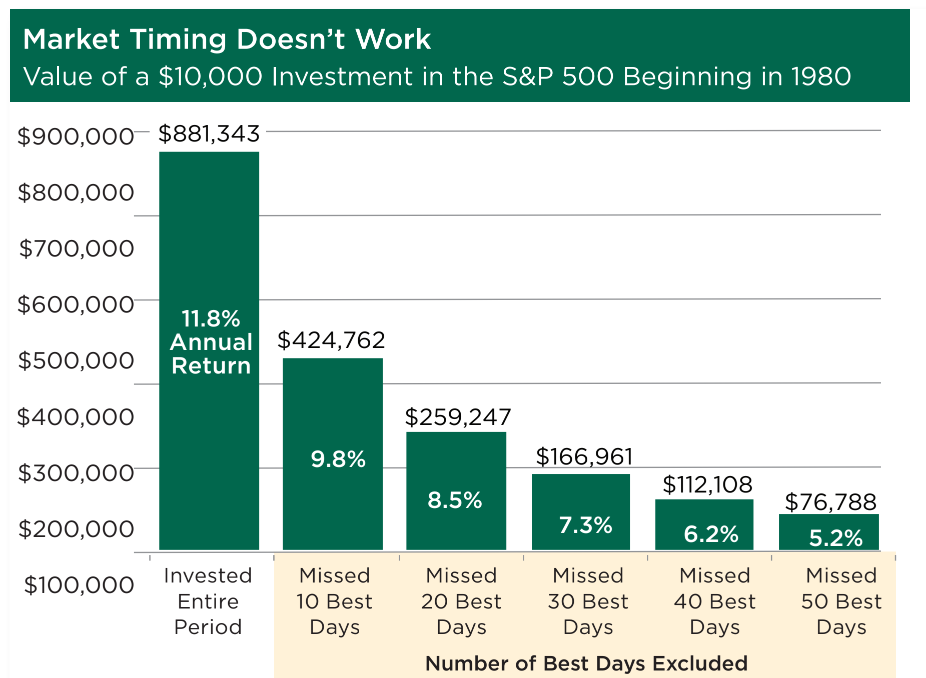
Keeping Your Emotions in Check

Bear markets are usually frightening. The stock market decline can be dramatic, and it may seem like there's no end in sight. You'll hear predictions about how much lower stocks could go. But in every bear market, the rebound has occurred unexpectedly – usually when the outlook appeared bleak. While it may feel difficult in bear markets, we recommend trying to stay calm and ignore extreme predictions of doom and gloom.

Don't Try to Outrun a Bear

During and immediately after market declines, it's tempting to sell quality stock and bond investments in hopes of avoiding further declines. Investments promising to "hedge" market risk and other alternatives often become popular after poor stock market performance.

You should avoid jumping into or out of the stock market. Instead, we believe investing is about time in the market rather than timing the market. By trying to time the market, you risk missing out on some of the best days, weeks and months. We believe buying investments when you have the money available and staying invested gives you the best potential to achieve success. Below is an example of how returns can be reduced if you miss some of the best days in the market.



Sources: Ned Davis Research and Edward Jones calculations. 1/1/1980–2/10/2020. These calculations assume the best days, as defined as the top percentage gains for the S&P 500 for the time period designated, would not be included in the return. Total return includes reinvested dividends. These calculations do not include any commissions or transaction fees that an investor may have incurred. If these fees were included, it would have a negative impact on the return. The S&P 500 is an unmanaged index and is not available for direct investment. Past performance does not guarantee future results. Dividends can be increased, decreased or eliminated at any point without notice. Copyright © 2019 Ned Davis Research, Inc. All rights reserved. Further distribution prohibited without prior permission.

Many will argue that if you had missed just a handful of the worst days, returns would have been just as good. This might be true, but predicting the worst days is just as difficult as predicting the best ones, and they frequently occur near each other. Staying invested can help ensure you don't experience the worst while missing the best.

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Using the Bear Market to Your Advantage

Bear markets provide long-term investors with the opportunity to buy quality investments at a lower price. The price you pay for an investment matters. Why? Generally, the lower the price you pay for a quality investment, the higher your potential investment return over time. This advice also holds true for market dips and corrections. Rebalancing your portfolio back to its target mix of investments (also called your asset allocation) is a way to use bear markets to your advantage.

If you're taking income from your investments, it's still possible to use a bear market to your advantage by rebalancing to help reduce its impact. While it can be difficult, consider temporarily reducing your income slightly by delaying spending so you leave more invested while prices are low. That can help your investments recover during the following rebound.

Your Survival Checklist

During a bear market, consider the following:

- ☐ Stay the course. Stock market declines are normal and frequent – they are not a reason to sell quality investments.
- ☐ Bear markets are typically short.
- ☐ Bear markets have historically been followed by bull markets.
- ☐ Bear markets can present opportunities for investors to buy stocks and equity mutual funds at lower prices.
- ☐ Quality investments typically have what it takes to bounce back. Lower-quality investments may not recover when the bear market ends.

Talk with your Edward Jones financial advisor today about a portfolio review to help ensure your portfolio is well-positioned for any direction the market may head.

Prepare, Don't Predict

We're not predicting what will happen. However, by owning quality investments in appropriate amounts and diversifying them, you can be better prepared to weather periodic bear markets.

Investors should understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates, and investors can lose some or all of their principal.

What Woke the Bear?

1961–1962

The stock market fell more than 25% as the economy slid into recession after the Federal Reserve increased interest rates steadily to combat inflationary pressures and President Kennedy attacked steel companies for raising prices.

1973–1974

The market fell by more than 45% as the Federal Reserve hiked interest rates sharply in response to the oil price shock and rising inflation, pushing the United States into recession.

1981–1982

Stocks declined 25% as the Fed raised interest rates sharply to combat inflation.

1990

The market slid 20% as the price of oil doubled, putting the economy in recession.

2000–2001

When the tech bubble burst, the market fell 30%.

2002

The market fell 30% due to double-dip recession concerns.

2007–2009

The market declined more than 50% as the housing bubble burst and bank failures pushed the U.S. economy into its worst recession since the Great Depression.

Investors who stayed invested through these bear markets and reinvested their dividends earned a total return on their stocks of 9.9% per year.

Sources: Bloomberg, Ned Davis Research and Edward Jones. Stock market measured by the Dow. Past performance does not guarantee future results.

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