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, your success or 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 on the right 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 quality investments.

S&P 500 stock index declines

	Dip (5% or more)	**Moderate correction** (10% or more)	**Severe correction** (15% or more)	**Bear market** (20% or more)
Number of occurrences	348	117	56	33
Mean number of occurrences per year	About 3.5 every year	About 1 every year	About 1 every 2 years	About 1 every 3 years

Source: FactSet, Edward Jones calculations. S&P 500 Index 1928–2023. Past performance does not guarantee future results. Market indexes are unmanaged, cannot be invested into directly and are not meant to depict an actual investment.

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Despite many pullbacks along the way, the Dow Jones Industrial Average (Dow) has had an average annual return of 10.6%, including dividends, since 1992.* 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 bear and bull markets over time.

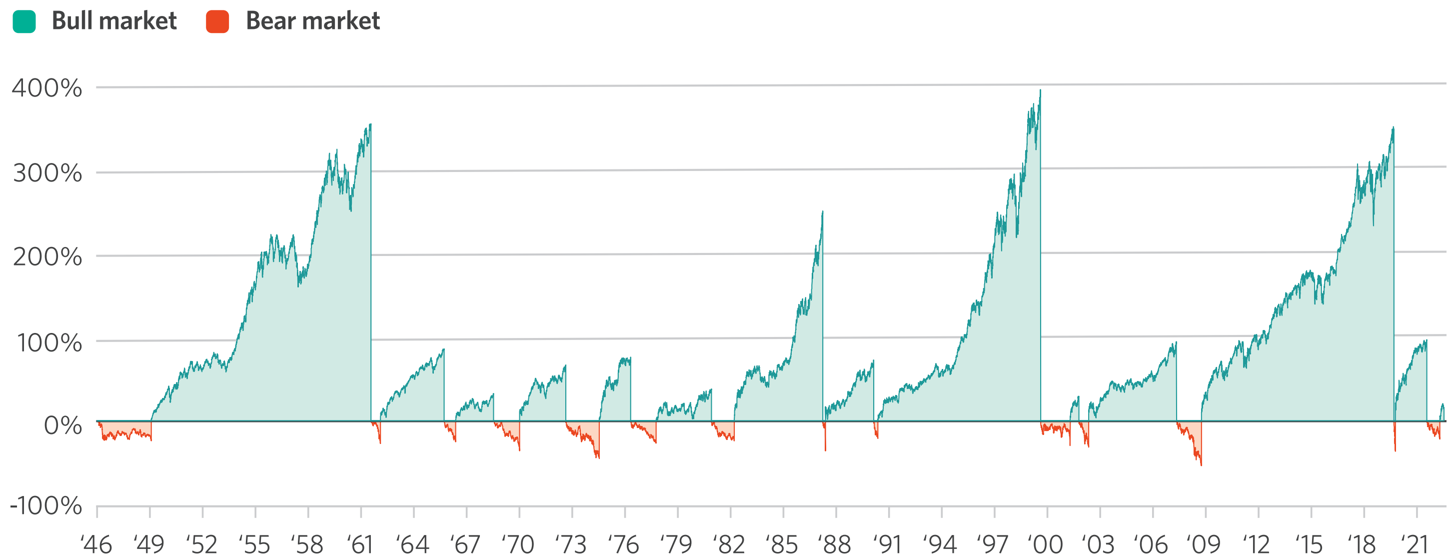
*Morningstar Direct, Dow Jones Industrial Average; 1/1/1992–12/31/2023. An index is unmanaged and not available for direct investment. Past performance does not guarantee future results.

What bull and bear markets look like

The following chart 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 20% or more).

You'll notice that bear markets are shorter than bull markets. On average, bear markets last about 13 months, with an average loss of about 31%.* Bull markets, on average, last about four and a half years, with an average gain of about 149%. 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: Edward Jones calculations, Bloomberg, FactSet, Dow Jones Industrial Average; 5/31/1946–12/31/2023. An index is unmanaged and not available for direct investment. Past performance does not guarantee future results.

*FactSet, Edward Jones. Bull and bear markets since 1946. An index is unmanaged and not available for direct investment. Past performance does not guarantee future results.

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

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Keeping your emotions in check

Bear markets are usually frightening. Stock market declines 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 many bear markets, the rebound occurred unexpectedly — usually when the outlook appeared bleak. While it may feel difficult in bear markets, we recommend trying to stay calm and ignoring extreme predictions of doom and gloom.

During the most recent bear market, the S&P 500 declined 24% from its high in January 2022, while the Dow Jones Industrial average declined roughly 21%. In contrast, the average bear market decline in the Dow has been 31% since 1946. While you might think it's prudent to prepare for another severe bear market, instead realize that extreme bear markets are infrequent. Only two of the 14 bear markets since 1946 have had declines of 40% or more in the Dow.

In addition, severe bear markets tend to be followed by sharp rebounds. In each case, when the Dow dropped 40% or more, it 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 investments when prices were down.

*Source: Edward Jones calculations, FactSet, Bloomberg, S&P 500 and Dow Jones Industrial Average. Past performance does not guarantee future results.

Don't try to outrun a bear

During and immediately after market declines, it's tempting to sell quality 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. The example on Page 4 illustrates how returns can be reduced if you miss some of the best days in the market.

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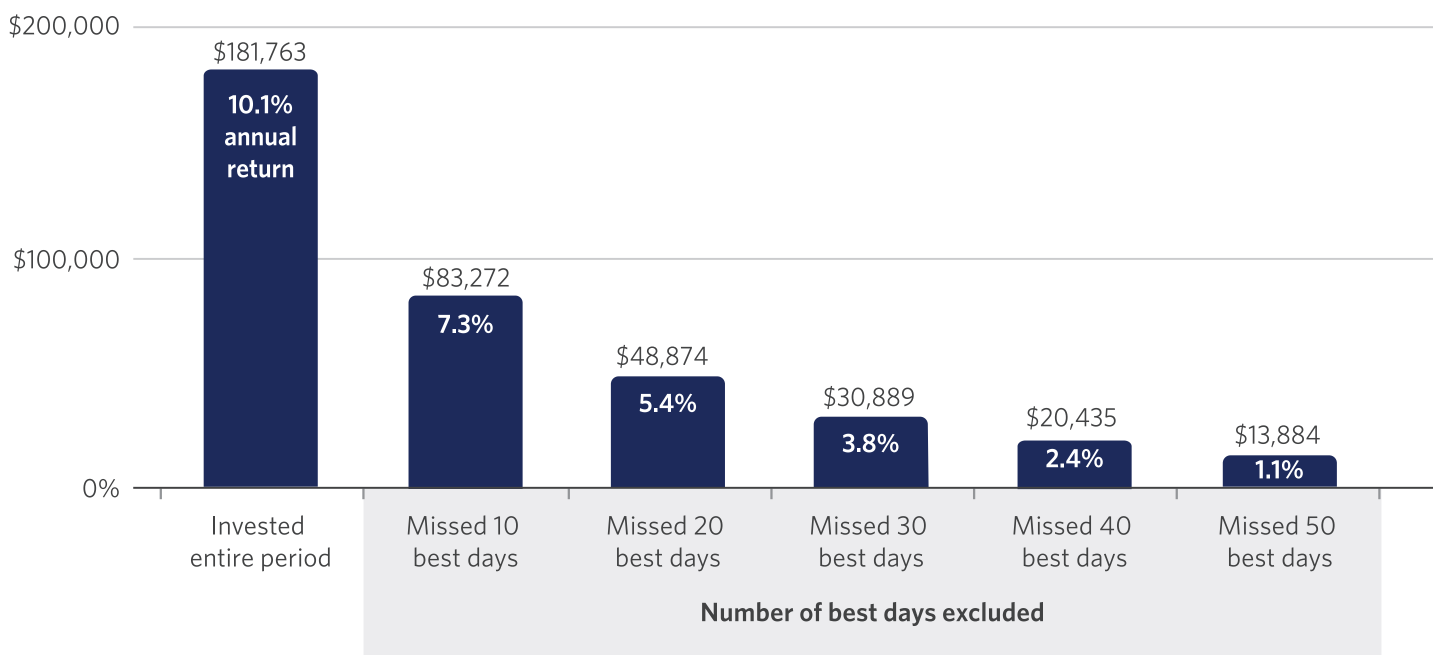
Market timing doesn't work

Value of a $10,000 investment in the S&P 500 begining in 1994



Sources: Morningstar Direct, Edward Jones. S&P 500 TR Index 12/31/1993–12/31/2023. 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. This is not meant to depict a real investment.

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.

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. This way, you can leave more invested while prices are low, which can help your investments recover during the following rebound.

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What woke the bear?

1961–62: 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.

1973–74: The market fell by more than 45% as the Fed hiked interest rates sharply in response to the oil price shock and rising inflation, pushing the United States into recession.

1981–82: 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.

2000–01: When the tech bubble burst, the market fell 30%.

2002: The market fell 30% because of double-dip recession concerns.

2007–09: 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.

2020: When the coronavirus made it to New York, the market dropped more than 30%, marking the fastest bear market on record.

However, the market finished the year with solid returns as it recovered in historic fashion.

2022: The market declined more than 20% as the Fed aggressively hiked interest rates from near zero to over 4% during the course of the year in an effort to combat inflation.

Despite these bear markets, the S&P 500 has gained roughly 10% per year since 1961, highlighting the importance of sticking to your investment strategy during market volatility.

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

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 quality investments 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 about ways to help ensure your portfolio is aligned with your goals regardless of where the market is headed.

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. Diversification does not ensure a profit or protect against loss in a declining market.

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.

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