Bear Market. Now what?

BEAR MARKETS AND PAST MARKET DECLINES

As of March 12, 2020, the S&P 500 Index entered into bear market territory, defined as a 20% decline from the index's past high. The Dow Jones Industrial Index, another often quoted index, fell into bear market territory the day before. The underpinnings of the current bear market can be found among the uncertainty, fear and implications of the coronavirus, which continues to spread across the global economy and consume the markets since it was first detected in Wuhan City, China back in December of 2019. The coronavirus is now a pandemic, as declared by the World Health Organization, officially making it a global issue.

A look at past market declines shows that bear markets for the S&P 500 Index occur about once every six years. Once in a bear market, they last, historically, for 401 days. While past results don't guarantee future returns, markets have always recovered from past market declines. The chart below shows what the recoveries have looked like over the five biggest market declines in history, since 1929. Over the subsequent five years, markets have always recovered, with only two of the twenty five subsequent years being negative.

Five biggest market declines and subsequent five-year periods*

1929–2019

		9/7/29-6/1/32	3/6/37-4/28/42	1/11/73-10/3/74	3/24/00-10/9/02	10/9/07-3/9/09	Average
	Decline	-86.22%	-60.01%	-48.20%	-49.15%	-56.78%	
S&P 500 12-month returns† after low	1st yr.	137.60%	64.26%	44.43%	36.16%	72.29%	70.95%
	2nd yr.	0.52	8.96	25.99	9.91	18.08	12.69
	3rd yr.	6.42	31.08	-2.86	8.51	6.10	9.85
	4th yr.	56.68	32.19	11.79	15.11	15.74	26.30
	5th yr.	16.52	-19.89	12.82	18.06	23.65	10.23
Five-year average annual total return		35.93	19.96	17.39	17.15	25.30	23.15
Value of a $10,000 investment in the S&P 500 at the end of the five-year period		$46,401	$24,841	$22,293	$22,067	$30,890	$28,322

23 Positive periods

2 Negative periods

Bear markets can last for a while. For long-term investors, research has shown it is generally not wise to try and time the markets in times of uncertainty as if often results in missing out on the market's recovery. Even in bear markets it is wise to "stay the course" amid the uncertainty and market volatility. The coronavirus will eventually pass, and in our opinion, investors will again re-focus on the real market drivers like corporate earnings and growth. It is important to keep in mind that current market conditions rarely provide a clear direction as to the future performance of the markets.

The U.S. market in particular has been dynamic and resilient in moving on from crisis after crisis throughout history. The recent market volatility should remind plan participants to focus on what they should be doing on a regular basis: Be mindful of the situation, but diligent about your long-term investment strategy and goals. Participants need to act in their own best interests while the stock market reacts to the current coronavirus and the uncertainty it brings. Sometimes staying the course (doing nothing) is the best course of action.

Our retirement plan service team at Wilson Albers remains open and available through this health issue. Wilson Albers is practicing responsible social distancing, but is fully capable and experienced at working remotely where prudent. If you would like to discuss your plan with our licensed professionals please call: In Washington 888-825-2377 or email peted@wilsonalbers.com. In Alaska 907-277-1616 or email sabrinap@wilsonalbers.com.

Sources: Capital Group, Standard & Poor's.
Chart footnotes: Market downturns are based on the five largest declines in the S&P 500's value (excluding dividends and/or distributions) with 50% recovery after each decline. † The return for each of the five years after a low is a 12-month return based on the date of the low. For example, the first year is the 12-month period from 3/9/09 to 3/9/10. The percentage decline is based on the index value of the unmanaged S&P 500, excluding dividends and/or distributions. Each market decline reflects a period of more than 80 days with 100% recovery after each decline (except for a 77% recovery between 3/9/09 and 4/29/11). The average annual total returns and hypothetical investment results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or taxes. Investors cannot invest directly in an index. Past results are not predictive of results in future periods. Financial advisors are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.)

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