Better Than the Average Bear?

Stocks remain in bear market territory. But how does the current bear market compare to prior bears, and what, if anything, does that tell us about what's ahead?

Since 1950, there have been 11 bear markets, with an average drop of 34% from the peak.*

For investors, bear markets can be an exercise in patience.[1] Conventional wisdom says to sit tight and keep a long-term perspective -- eventually the tides will turn. But that can be difficult to do when you are watching your hard-earned savings dwindle by the day. Many are asking: Will it get worse? How bad will it get?

Putting It in Perspective

Bear markets are nothing new. Since 1950, there have been 11 of them, excluding the current one. The average bear market over that period has seen a drop of 34%.*

Almost half saw declines of under 30%, although the 2007-2009 financial crisis witnessed a drop of a whopping 57%. And of course, going back further in history, there was the granddaddy of them all -- the 86% drop from 1929 to 1932 at the start of the Great Depression.

As for duration, the average bear market since 1950 has lasted about a year. In general, the more severe bear markets lasted longer. Since 1950, the three worst -- in 1973-1974, 2000-2002, and 2007-2009 -- lasted an average of 22 months. But there are exceptions. The two bear markets in 1987 and 2020 both saw the S&P 500 tumble 33% from its prior peak, yet the index recovered within a few months.

In fact, just looking at the magnitude and duration of past bear markets reveals no consistent trends. You need to dig deeper and look at the underlying circumstances. Eight of the past eleven bear markets were accompanied by recessions. In general, bear markets during recessions have been more severe, and longer and deeper recessions have seen greater declines in stocks. But again, not always. The recession in the early 1980s lasted 16 months, yet the market declined only 27%, and the 2020 recession lasted all of two months, but stocks dropped 34%.

Clearly, there is much more to bear markets than recessions. In the 70s, it was the oil crisis and stagflation; in the 80s and 90s, it was inflation and a restrictive Federal Reserve; in 2000-2002, it was the popping of the tech bubble; in 2007-2009, it was the financial crisis; and in 2020, it was Covid.

The current bear market is primarily attributed to inflation and rising interest rates. But there's much more to it than that. The aftereffects of the Covid pandemic play a role, as do the war in the Ukraine, skyrocketing energy prices in Europe, the soaring dollar, and an economic slowdown in China. In fact, bear markets are complex, and each one is different.

How severe the current bear market will get, and how long it will endure, are unknowns. If you are thinking of selling, keep in mind that as of October 31, the market had already lost almost 20%, so you would be locking in that loss. Also consider your alternatives -- where would you invest? Bonds are also taking a beating in the rising rate environment, and real yields (after inflation) on money market accounts are negative. Most important, when would you get back in the market? You could miss out on a rally or recovery. Although past performance is no indication of future results, stocks historically have outperformed other asset classes over time, and every bear eventually has been followed by a bull market, whose gains have dramatically exceeded the losses of the previous bear (see chart).

So in the end, conventional wisdom -- no matter how painful -- may be just the ticket. Talk to a financial professional to see how you might best deal with the current bear market.

Bears & Bulls Since 1950[2]

Bear Market Dates	Duration (months)	Maximum Drop	Subsequent Gain
Aug 1956 - Oct 1957	14	-21.47%	86.35%
Dec 1961 - June 1962	6	-27.97%	79.78%
Feb 1966 - Oct 1966	7	-22.18%	48.05%
Nov 1968 - May 1970	17	-36.06%	73.53%
Jan 1973 - Oct 1974	20	-48.20%	125.63%
Nov 1980 - Aug 1982	20	-27.11%	228.81%
Aug 1987 - Dec 1987	3	-33.51%	64.77%
Jul 1990 - Oct 1990	2	-19.92%	416.98%
Mar 2000 - Oct 2002	30	-49.15%	101.50%
Oct 2007 - Mar 2009	17	-56.78%	400.52%
Feb 2020 - Mar 2020	1	-33.90%	113.02%
Average	**12**	**-34.21%**	**158.08%**
Jun 2022 - ?	?	-25.43%[3]	?

*SS&C. As measured by the closing price of the S&P 500 index. Excludes current bear market.

[1]A bear market is defined as a drop of 20% or more in the S&P 500 from its previous peak. It remains a bear market until the index climbs 20% from its low.

[2] Source: ChartSource®, DST Retirement Solutions, LLC, an SS&C company. Stocks are represented by the daily closing price of the S&P 500 index, an unmanaged index that is generally considered representative of the U.S. stock market. The percentage increase in the final period represents the gain through December 31, 2021. It is not possible to invest directly in an index. Index performance does not reflect the effects of investing costs and taxes. Actual results would vary from benchmarks and would likely have been lower. Past performance is not a guarantee of future results. © 2022 SS&C. Reproduction in whole or in part prohibited, except by permission. All rights reserved. Not responsible for any errors or omissions.

[3] As of October 12, 2022.