Envoy Wealth Management LLC
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Informed Investor Series

Understanding a Bear Market White Paper

The **Informed Investor Series** explores how better understanding markets may help you to make the most informed investment decisions possible.

The **Understanding a Bear Market** white paper examines past stock market declines to help investors better understand bear markets and how the headlines surrounding them may lead to worry as investors imagine the bleakest outcome.

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Bestselling author and creativity coach, Dan Zadra, once said, "Worry is the misuse of the imagination."

Due to the emotional nature of a bear market, we might not only be fighting the headlines we read, but how those headlines may lead to worry as we imagine the bleakest outcome. As such, an understanding of bear markets by examining past stock market declines might help us gain a better perspective.

A bear market occurs when the stock market has lost 20% or more over an extended period. Typically, bear markets are a result of economic challenges such as a recession or high unemployment.

For our discussion today, we will focus on shedding light on the historic information that past bear markets might provide in an effort to possibly help us better understand this cycle of the stock market.

While in a bear market, it is difficult to eliminate the worry that Dan Zadra refers to, but perhaps by understanding the nature of past bear markets, we might avoid the "misuse of imagination" he mentions.

The chart on the following page provides almost 70 years of stock market information using the S&P 500 as our guide.

Column 1 shows when the S&P 500 peaked.

Column 2 shows when the market hit bottom.

Column 3 shows how much the S&P 500 lost in value in that time period.

Columns 4 and 5 show how long the bear market lasted as measured by days and years.

Column 6 shows the return of the S&P 500 12 months after the market hits bottom.[1]

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	
Market Peak	**Market Bottom**	**% Loss**	**# of Days**	**# of Years**	**Return 12 Months After Market Hits Bottom**	
May 29, 1946	June 12, 1949	-(29.9%)	1,111	3.0	June 13, 1949	42.07%
August 2, 1956	October 22, 1957	-(21.6%)	446	1.2	October 22, 1957	31.02%
December 12, 1961	May 28, 1962	-(28.0%)	196	0.5	June 26, 1962	32.66%
February 9, 1966	October 7, 1966	-(22.2%)	240	0.7	October 7, 1966	32.87%
November 29, 1968	May 26, 1970	-(36.1%)	543	1.5	May 26, 1970	43.73%
January 11,1973	October 3, 1974	-(48.2%)	630	1.7	October 3, 1974	38.01%
November 28, 1980	August 12,1982	-(27.1%)	622	1.7	August 12, 1982	58.33%
August 25,1987	December 4, 1987	-(33.5%)	101	0.3	December 4, 1987	26.00%
March 24, 2000	October 9, 2002	-(49.1%)	929	2.5	October 9, 2002	36.16%
October 9, 2007	March 9, 2009	-(53%)	517	1.4	March 9, 2009	72.29%
Averages	**12.3%**	**-(34.87%)**	**533.50**	**1.45**	**41.31%**	

Here is what the historical numbers tell us:

- The average loss in a bear market is almost 35%, which certainly may cause worry.
- The average length of a bear market is just shy of 1.5 years.
- The longest bear market being 3 years in length.
- The shortest bear market being 4 months in length.
- The average return of the S&P 500 12 months from when the bear market hits bottom is 41.31%.

While no two markets are the same and past performance is never an indication of future results, in our view, one of the most important points that can be implied by the historic nature of a bear market is that the market will not stay down forever. Historically, we have seen that it has typically cycled higher.

Also worth noting are the 12 months returns after the market hits bottom. Past bear markets have historically shown strong results one year after the market hits bottom. It would suggest that selling your stock investments after a major pullback in the stock market may hurt your investment results, as you will be locking in your losses and may not be a participant when the market improves, thus missing what could be strong potential 12 month returns.

For those who maintain a long-term focus and do not panic out of the market when prices drop, an attractive return could be your result.

If you are reading this in the middle of a significant market pull back, we suggest that you do not use your imagination to forecast he bleakest potential outcome, but to instead understand the historical nature of past bear makets and remain investment in the stsock market.

For more information on the Informed Investor Series or the Bull and Bear white papers or presentations, please call us at (219) 627-1094.

Important Disclosures

[1] Bloomberg and Dunham & Associates

Investments are subject to risks, including possible loss of principal. Investors should consider the investment objectives, risk factors and expenses of any investment carefully before investing. Diversification does not guarantee profit or ensure against loss.

The Dow Jones Index is an index of certain stock prices on the New York Stock Exchange, computed by the Dow Jones Publishing Company as a weighted average of the prices of specific stocks in certain categories. Three indices are maintained, the Industrials, the Transportations and the Utilities. When used without qualification, the term usually refers to the Down Jones Industrial Average.

The NASDAQ Composite Index is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks.

All examples are hypothetical and are for illustrative purposes only. We encourage you to seek personalized advice from qualified professionals regarding all personal finance issues. The solution for an investor depends on their and their family's unique circumstances and objectives.

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