

World Crises and the Stock Market: Learn From History

The coronavirus has wreaked havoc with financial markets across the globe, ushering in the first U.S. bear market in over 10 years. But crises and bear markets are nothing new. For investors, it helps to put current events in historical perspective.

The abrupt shift from record bull to bear market saw the S&P 500 drop 34% in just five weeks.

Not that long ago, the idea of a bear market seemed almost unimaginable. The economy was firing on all cylinders. Employment was at a record high. The stock market, which was in its eleventh year of a bull run, was on the path for another strong year in 2020.

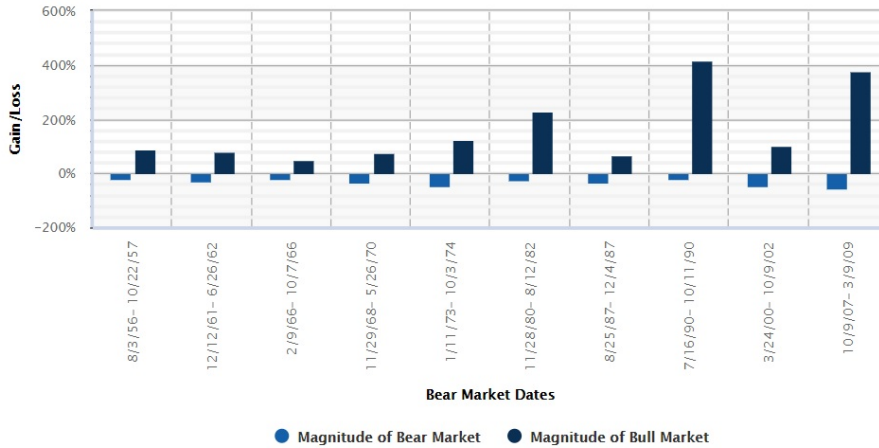
Then came COVID-19. Between February 19 and March 23, the S&P 500 tumbled 34%, putting it well into bear market territory (defined as a drop of 20% or more). The index recovered some ground towards the end of the month, but volatility has been extreme, with the major benchmark indices swinging wildly from day to day. Where markets go from here will largely depend on how successful governments are in containing the outbreak and mitigating its effects on the economy.

For investors, it's been a very trying time. Weathering a down market such as this requires patience, a long-term perspective, and the use of different strategies to help minimize the impact of falling stock prices on your portfolio. It also helps to look at history.

Putting Market Returns in Perspective

Bear markets are nothing new. Between 1950 and 2020, the S&P 500 underwent 10 bear markets. The average bear market lasted about 14 months, with an average market decline of 34%. In contrast, the ensuing bull markets during this time period lasted more than four years on average, with an average gain of over 136%.¹

Magnitudes of Bear and Bull Markets²



Should You Sell?

Not surprisingly, the first reaction to a falling market is to bail out. But that kind of short-term thinking may not be in your best interest -- especially if you sell at a loss. Before selling, you should consider several factors. First, look at your time horizon, i.e., when you will need to use the invested funds. If you are investing for the long term -- for retirement, for instance -- then there's a good likelihood that the market will rebound before you need to use the funds. Second, consider your alternatives. If you take your money out of equities, where will you invest it? Remember that in the long term, stocks have outperformed the other asset classes -- bonds and money market securities -- by a significant margin, although past performance is no guarantee of future returns.

Maintain a Portfolio That's Right for You

If you haven't already done so, take a good look at your investments as a whole. What is your portfolio's asset allocation -- your mix of stocks, bonds, and cash equivalents? If you use your risk tolerance -- your emotional and practical ability to handle risk -- to guide the asset allocation process, you'll be better prepared to cope with market volatility.

Reviewing your asset allocation can help you answer another question about your portfolio: Is it adequately diversified? In other words, have you spread your money among different investments to potentially help reduce risk? Different securities do better at different times. Therefore, holding a variety of investments creates the potential for those that perform well to compensate for those that do not over a period of time. Neither asset allocation nor diversification guarantees against investment loss.

Finally, when assembling or maintaining a portfolio, consider tapping the expertise of a seasoned financial professional. He or she can make suggestions regarding your portfolio mix, explain current market trends, and help you stay focused on your long-term financial goals.

Four Tips for Surviving Bear Markets

- Implement a well-thought-out investment plan and then stick with it. You may increase your chances of being around when the bull takes its next run.
- Do not make investment decisions based on short-term market drops or gains. Instead, evaluate how an investment fits into your overall financial strategy.
- Look at a bear market as a buying opportunity. Some stocks may be undervalued following a broad market decline, allowing you to invest more in high-quality companies.
- Talk with a financial professional. He or she may have been through volatile periods before.

¹Source: DST Retirement Solutions, an SS&C company. Based on the daily price close of the S&P 500. A bear market is defined as the S&P closing at least 20% below its previous high. Its duration is the period from the previous high to the lowest close reached after it has fallen 20% or more. A bull market is measured from the lowest close reached after the market has fallen 20% or more to the next high. Average gain does not include the most recent bull market gain.

²Source: 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, 2019. 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. © 2020, SS&C. Reproduction in whole or in part prohibited, except by permission. All rights reserved. Not responsible for any errors or omissions. (CS000144)