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# The *Steady Pulse*

DiMeo Schneider & Associates, L.L.C.

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## **Digging out from Bear Markets – What History Tells Us**

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The debate is on as to whether we are in a U-shaped, V-shaped, full-blown recovery, or if we are just being lured back in before another sell-off. Regardless of where we are in the market cycle, several things tend to have held true through past bear markets.

► **Markets Historically Rally Sharply in Early Stages of Recovery**— The 12 months following bear market troughs have always seen well above-average performance, with one year stock returns averaging nearly 46%. While this was hard to believe in the darkest days of the market decline, this bear market was not that different from any other. From the low point on March 9, 2009 through October 5, 2009, the S&P 500 rallied 51%. While we still have a ways to go to make up the 57% decline from October 9, 2007 through March 9, 2009, this lends to credence to a basic investment tenet of not trying to time the market. Much as the market declines in advance of a recession, the market tends to rally while still in the grips of a recession.

► **It was Different This Time** – The players were different and of course the depth and swiftness of the market decline ranks as the second worst, but in many respects this decline is very similar to past market declines. While this decline was brought on by the housing bubble initially and then spread to the rest of the economy, consider the tech bubble in 2000-2002 and the oil shock in 1974 that played out in much the same way. Bear markets, defined as a period where the market goes down 20% or more peak to trough, actually happen quite frequently, or about once every three years.

► **Diversification Still Matters** – It was understandable to question this long held investment tenet in 2008 and early 2009 when virtually every type of investment, other than U.S. Treasuries, suffered significant losses. Correlations for all asset classes rose dramatically, meaning virtually every kind of stock, bond, commodity, etc. declined, providing little or no benefit from diversification. Eventually rationality returns to the markets and fundamentals will once again matter.

► **Don't Forget about Risk** – When the market was on its six-year trajectory, many investors got lulled into thinking that risk had been taken out of the market and then were shocked when equity portfolios suffered significant declines. Too stable of a market creates tremendous instability at some point. An occasional bear market is a healthy reminder to investors that market risk is the price you pay for potentially higher returns. Investors tend to have short-term memories and while they are certain to be paying attention to risk in a decline it is just as important to consider risk in a rising market as well.

► **Disaster can lead to Positive Change**– Necessity breeds invention and providers in the marketplace are responding to recent market events and the subsequent decimation of balances with unique approaches to position investors for the future.

After the Great Depression, the government created various regulatory agencies to prevent a repeat and protect investors. Once again, the White House has proposed major financial regulation and oversight designed to mitigate risk in the financial system. While one can debate the need and extent of increased regulatory oversight, the argument against reform is hard to make.

Investment  
Returns

Inflows