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Bear Essentials: A Historical Guide

Abear market occurs when stocks fall20 percentfrom a recent high. On Monday, June 13, 2022, the S&P 500 fell 22 percent from the last high set on January 3, 2022, thus officially entering a bear market in 2022.[[1]](#endnote-1) Similarly, a bull market begins when the market gains 20 percent from market lows.

While no two bear markets are alike, in this edition we review the history of bear markets to understand the potential good and bad news for investors once the market has crossed the dreaded threshold.

Bear markets are normal and par for the course when investing. Since 1929, there have been 26 bear markets in the S&P 500 index.*[[2]](#endnote-2)* The average decline across these 26 bear markets has been almost 36 percent.[[3]](#endnote-3) Using historical averages as a guide, investors may glean the pain isn’t necessarily over yet. However, averages are skewed by the worst bear markets, and not all bear markets are created equal.

The most painful bear markets are often associated with an economic recession. However, bear markets and recessions do not always coincide. Since 1929, of the 26 bear markets, only 15 were tied with recessions.[[4]](#endnote-4) Research by Ned Davis using the Dow Jones Industrial Average (DJIA) from 1900 through the present shows bear markets associated with recessions had an average decline of nearly 35 percent while bear markets without a recession experienced an average loss of 25 percent.[[5]](#endnote-5) While bear markets often go hand-in-hand with a slowing economy, a recession as a result of a bear market is not necessarily a foregone conclusion.

Bear markets have been short-lived. Since 1929, the average length of a bear market in the S&P 500 index is 289 days or about 9.6 months.[[6]](#endnote-6) Once again, the averages are skewed by the worst bear markets. According to Ned Davis’ research, bear markets associated with recessions lasted 353 days while bear markets without a recession lasted 206 days.[[7]](#endnote-7)

Bear markets, while short-lived in comparison to bull markets, feel longer due to loss aversion. Loss aversion--a behavioral finance term--tells us losses hurt twice as much as gains feel good. It is true bear markets are violent and can happen quickly, while bull markets happen over time and build wealth slowly. Despite the bear market stigma, markets are positive the majority of the time. Since 1929, we have had 92 years of market history. Bear markets have comprised only 20.6 years of that 92-year period. In other words, stock markets generate gains 78 percent of the time.[[8]](#endnote-8)

Finally, investors considering selling before compounding additional losses and waiting for the all-clear signal should know half of the S&P 500 index’s strongest days in the last 20 years occurred during a bear market. Another 34 percent of the best days occurred shortly after the end of the bear market.[[9]](#endnote-9) While the time to recovery varies, the S&P 500 has come back from every one of its prior bear markets to eventually rise to another all-time high. Investors with long-term goals may want to consider staying invested, since it is difficult to predict when markets will rebound.

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1. FactSet [↑](#endnote-ref-1)
2. Seeking Alpha: The complete history of bear markets [↑](#endnote-ref-2)
3. Seeking Alpha: The complete history of bear markets [↑](#endnote-ref-3)
4. NBER, Seeking Alpha: The complete history of bear markets [↑](#endnote-ref-4)
5. Ned Davis Research: A History of Bear Markets II: Dow Jones Industrial Average (1900-6/13/2022) [↑](#endnote-ref-5)
6. Seeking Alpha: The complete history of bear markets [↑](#endnote-ref-6)
7. Ned Davis Research: A History of Bear Markets II: Dow Jones Industrial Average (1900-6/13/2022) [↑](#endnote-ref-7)
8. Hartford Funds: 10 Things to know about Bear Markets [↑](#endnote-ref-8)
9. Hartford Funds: 10 Things to know about Bear Markets [↑](#endnote-ref-9)