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There's No Need To Fear A Bear Market - Wealthfront Blog

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4-5 minutes

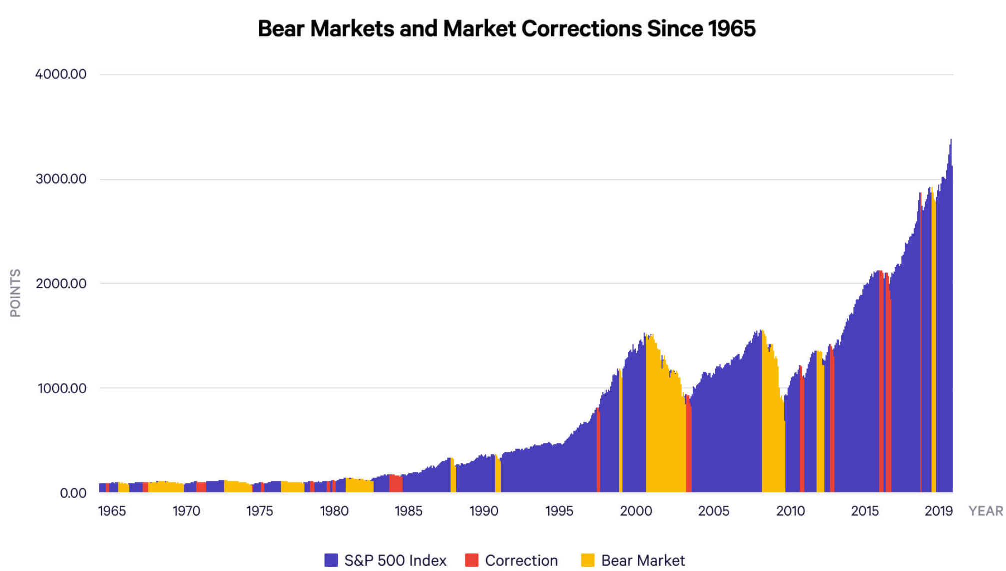
2019 was kind to investors, but 2020 has come with its ups and downs. After a record-setting start to the year, the tides turned quickly as news of the coronavirus COVID-19 made headlines. During a three-week window from February 19 to March 11, the Dow and S&P 500 tumbled into bear market territory. On March 15, the Federal Reserve lowered the target range for the federal funds rate by a full percentage point and announced plans to purchase $700 billion of assets as part of a quantitative easing program. The result? More investor fear (as measured by the CBOE Volatility Index) than we've seen in more than a decade.

Just as we have seen during previous bear markets (and market corrections), many individual investors sell when the market declines out of fear it will never come back. However, the opposite is actually true. **Not only will the market come back, but history has shown that it will do so a lot sooner than you might think.** While we can't predict the future, we can certainly use the past to help inform how we think about times of unusually high volatility. So in this post we'll present data on how market corrections and bear markets work so you can come in off the sidelines and keep investing in your future.

Bearing the bear

Because the market was on a tear, investors have been sensitive to any downward trends. So when the latest bear market — defined as a peak-to-trough decline of at least 20% — occurred last week, it sent shockwaves. The result has been fear and uncertainty, with many investors pulling the money out of the market or keeping their money in savings while they wait it out. But just how long should this last?

Since the current bear market is still in progress, we'll exclude that from our analysis here. As you can see from the chart below, since 1965, there have been 16 market corrections (defined as a peak-to-trough decline of 10%) and 12 bear markets. For the purpose of this analysis we rounded up declines to determine corrections and bear markets:



Source: Wealthfront

The table below displays the size of each correction and the amount of time it took the market to recover, or the time it took to return to the price achieved at the peak.

S&P 500 Corrections (Declines Greater Than 10% But Less Than 20%) 1965-2019

Peak		Trough		Recovery		Number of Days	
DATE	ADJ CLOSE	DATE	ADJ CLOSE	DATE	% DROP	PEAK TO TROUGH	TROUGH TO RECOVERY
2018-01-26	2872.87	2018-02-08	2581.00	2018-08-24	-10.16%	14	198
2015-11-03	2109.79	2016-02-11	1829.08	2016-06-07	-13.31%	101	118
2015-05-21	2130.82	2016-02-11	1829.08	2016-07-11	-14.16%	267	152
2012-04-02	1419.04	2012-06-01	1278.04	2012-09-06	-9.94%	61	98
2010-04-15	1211.67	2010-07-02	1022.58	2010-11-04	-15.61%	79	126
2002-11-27	938.87	2003-03-11	800.73	2003-05-27	-14.71%	105	78
1997-02-18	816.29	1997-04-11	737.65	1997-05-05	-9.63%	53	25
1983-10-10	172.65	1984-07-24	147.82	1985-01-21	-14.38%	289	182
1980-02-13	118.44	1980-03-27	98.22	1980-07-14	-17.07%	44	110
1979-10-05	111.27	1979-11-07	99.87	1980-01-21	-10.25%	34	76
1978-09-12	106.99	1978-11-14	92.49	1979-08-13	-13.55%	64	273
1975-07-15	95.61	1975-08-21	83.07	1976-01-12	-13.12%	38	145
1974-11-07	75.21	1974-12-06	65.01	1975-01-27	-13.56%	30	53
1971-09-08	101.34	1971-11-23	90.16	1971-12-20	-11.03%	77	28
1971-04-28	104.77	1971-08-09	93.53	1972-02-04	-10.73%	104	180
1967-09-25	97.59	1968-03-05	87.72	1968-04-29	-10.11%	163	56
1965-05-13	90.27	1965-06-28	81.60	1965-09-27	-9.60%	47	92
				Mean	-12.41%	92	117
				Min	-17.07%	14	25
				Max	-9.60%	289	273

Source: Wealthfront

As you can see the mean time to recovery from a market correction was only 117 days, which isn't that long of a time to exercise patience when you're investing for the long term. Yet numerous research organizations, most notably DALBAR, have found that individual investors consistently run for the exits whenever the market drops, which on average costs them **as much as 3.5% per year.**

As you might expect, bear markets take longer to recover than corrections. But the good news is bear markets do recover — you just have to have more patience**.** The mean time to recovery for bear markets is 654 days. But keep in mind the average was highly influenced by the six years it took to recover from the bear market in the 1970s. **That means on average, investors who stayed invested after a bear market have historically earned more than 20% in under 1.8 years, which is a very attractive return.**

S&P 500 Bear Markets (Declines Greater Than 20%) 1965-2019

Peak		Trough		Recovery		Number of Days	
DATE	ADJ CLOSE	DATE	ADJ CLOSE	DATE	% DROP	PEAK TO TROUGH	TROUGH TO RECOVERY
2018-09-20	2930.75	2018-12-24	2351.10	2019-04-23	-19.78%	96	121
2011-04-29	1363.61	2011-10-03	1099.23	2012-02-24	-19.39%	158	145
2007-10-09	1565.15	2009-03-09	676.53	2013-03-28	-56.78%	518	1481
2000-03-24	1527.46	2002-10-09	776.76	2007-05-30	-49.15%	930	1695
1998-07-17	1186.75	1998-08-31	957.28	1998-11-23	-19.34%	46	85
1990-07-16	368.95	1990-10-11	295.46	1991-02-13	-19.92%	88	126
1987-08-25	336.77	1987-12-04	223.92	1989-07-26	-33.51%	102	601
1980-11-28	140.52	1982-08-12	102.42	1982-11-03	-27.11%	623	84
1976-09-21	107.83	1978-03-06	86.9	1979-08-15	-19.41%	532	528
1973-01-11	120.24	1974-10-03	62.28	1980-07-17	-48.20%	631	2115
1968-11-29	108.37	1970-05-26	69.29	1972-03-06	-36.06%	544	651
1966-02-09	94.06	1966-10-07	73.2	1967-05-05	-22.18%	241	211
				Mean	-30.90%	376	654
				Min	-56.78%	46	84
				Max	-19.34%	930	2115

Source: Wealthfront

Your superpower: Staying the course

If you plan on saving over the long term, even a bear market shouldn't stop you from consistently adding to your investment account. In fact, investing in a bear market can actually increase the value of your holdings at retirement because, in effect, you get to buy at a discount all along the way. To put it another way, if an investor started investing on January 1, 1965 and endured all of the corrections and bear markets over the next 55 years until today, they would have seen a compounded return of 6.51%, far in excess of the compounded inflation rate of 3.91%. But human nature is tough to overcome, so while ignoring market corrections and bear markets and staying the course is the right thing to do, it doesn't necessarily feel that way when markets are volatile. So our advice: use data to guide your decisions, and remember that slow and steady wins the race.