INVESTMENT FUNDAMENTALS

Bear Markets

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Snapshot

- Bear markets represent stock-market declines of more than 20% and occur, on average, once every three-and-a-half years.
- They are not the same as market corrections (or pullbacks of 10% to 20%), which are more common and less catastrophic.
- Although it's tempting to sell during a bear market, a better strategy may be to hold—and possibly even invest more—as stocks become more affordable.

Out of the various animal spirits that sometimes haunt Wall Street (bulls, dogs, black swans or unicorns, anyone?), the bear is perhaps the most feared among investors.

Why? A bear market—defined as a decline of at least 20% in a broad stock market index (such as the S&P 500 Index or the Dow Jones Industrial Average), which most economists agree runs for at least two months—can be scary for investors who lose sight of their long-term investment goals.

Bear Tales

The term "bear market" has—pardon the pun—fuzzy origins. Most agree that it stems from eighteenth-century bearskin jobbers (or sellers) who sold products that they did not yet own at a speculative price, hoping the market value of the product would decrease before they had to actually acquire the bearskin to fulfill their sales in order to make a profit.

However the bear market got its name, the U.S. has seen 32 bear markets since 1900 (as measured by the S&P 500 Index and its predecessor, the S&P 90 Index), with an average of one every 42 months (Exhibit 1). The most recent bear market emerged in 2007, sparked by the global financial crisis, and disappeared just about 18 months later.

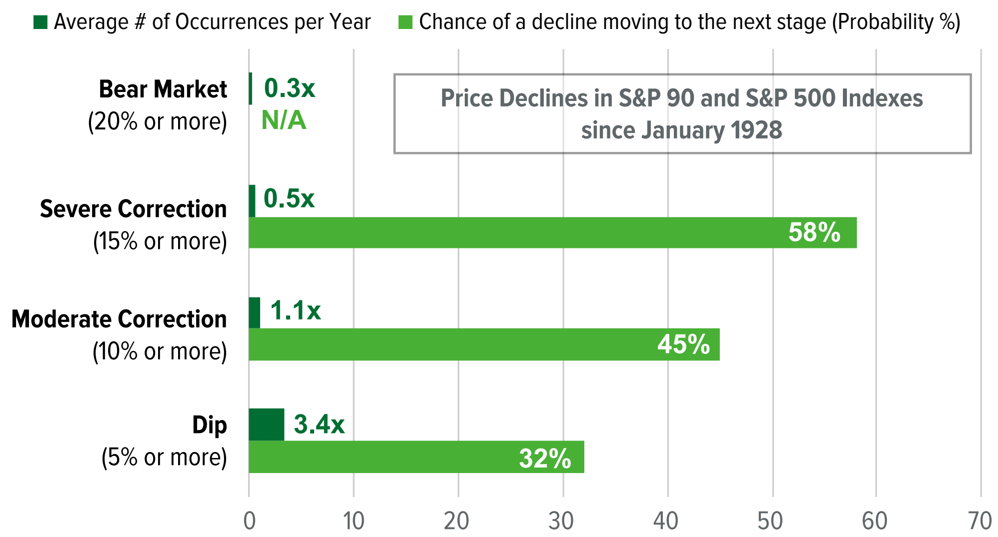
Exhibit 1: Bear Markets of the S&P 500 Index/S&P 90 Index

Start of Bear Market	End of Bear Market	Total Loss	Returns 3 Months Prior to Peak	30 Day Volatility Prior to Peak
9/7/29	11/13/29	-44.7%	22.1%	21.6%
4/10/30	6/1/32	-83.0%	20.6%	11.6%
9/7/32	2/27/33	-40.6%	88.5%	57.0%
7/18/33	10/21/33	-29.8%	54.2%	46.7%
2/6/34	3/14/35	-31.8%	21.6%	27.8%
3/6/37	3/31/38	-54.5%	8.9%	14.6%
11/9/38	4/8/39	-26.2%	15.7%	25.4%
10/25/39	6/10/40	-31.9%	9.7%	22.2%
11/9/40	4/28/42	-34.5%	15.4%	22.6%
5/29/46	10/9/46	-26.6%	12.0%	10.9%
6/15/48	6/13/49	-20.6%	16.1%	27.0%
7/15/57	10/22/57	-20.7%	8.2%	8.5%
1/3/62	6/26/62	-26.4%	4.6%	6.9%
2/9/66	10/7/66	-22.2%	1.8%	5.3%
11/29/68	5/26/70	-36.1%	9.5%	6.0%
1/11/73	10/3/74	-48.2%	11.4%	7.6%
11/28/80	8/12/82	-27.1%	12.0%	17.2%
8/25/87	12/4/87	-33.5%	16.7%	12.2%
3/24/00	10/9/02	-49.1%	4.3%	26.8%
10/9/07	3/9/09	-56.8%	1.0%	16.8%

Bear market defined as 20% drop in the S&P 500 Index

Bear markets should not be confused with market corrections, which are pullbacks of 10% to 20% that happen more regularly (about every two years) and are generally not tied to economic crises. Exhibit 2 illustrates how uncommon bear markets are relative to market corrections.

Exhibit 2: Moderate Corrections Are Normal



Source: Ned Davis Research, Standard & Poor's, SEI

Bear With the Bear

Although it can be tempting to bail on equity investments when a bear market strikes, we believe it's best to stay the course for two reasons.

First, the appropriate response to a bear market depends on an investor's long-term goals and time horizon. In general, dumping stocks and moving to cash in a bear market violates one of the most-basic premises of successful investing: *buy low, sell high*. When selling at a market low, any drop in value that had been a paper loss until that point becomes a realized loss. Although it may seem counterintuitive, an alternative strategy may be to think of a bear market as an opportunity to buy stock at a discount.

Second, while it's difficult to predict just when a bear market will begin, it's even harder to know when it will end. Moving out of stocks during a major downturn not only increases your chances of realizing a loss; it can also mean that you'll miss out on the recovery. Bull markets historically follow bear markets, and history has shown that a notable portion of gains are usually experienced in the early bull-market rally.

As always, diversifying your investments among different asset classes, industries and countries can help mitigate risk when the bear charges at your portfolio.

Index Definitions

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **S&P 500** Index is an unmanaged, market-weighted index that consists of 500 of the largest publicly-traded U.S. companies and is considered representative of the broad U.S. stock market.

Glossary of Financial Terms

Volatility is a statistical measure of the dispersion of returns for a given security or market index.

Important Information

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