THOUGHT FOR THE WEEK

Market Correction vs. Bear Market

- October 2018 was a spooky month. The S&P 500 Index once again entered correction territory as it declined -10% from its peak during the summer. The continued pattern of declines again raises the question: Is this the beginning of a bear market? Of course, not all corrections turn into bear markets. Data from the Schwab Center for Financial Research shows that there have been 22 market corrections since 1974; only four of them, occurring in 1980, 1987, 2000 and 2007, eventually ended up as bear markets.
- No bull market lasts forever, but bull markets have historically lasted much longer than bear markets. Since 1926, the average bull market for the S&P 500 Index has lasted 9.1 years with an average cumulative total return of 480%, while the average S&P 500 bear market period lasted only 1.4 years with an average cumulative loss of -41%.
- Economic conditions remain strong in the U.S. As such, investors should take advantage of the strong economy to prepare for the inevitable bad economy – whenever it occurs.

Not every correction turns into a bear market

The S&P 500 Index once again entered correction territory as it declined -10% from its prior peak during the month of October. This decrease in price following a short-term increase is called a market correction. A bear market, on the other hand, occurs when the index closes at least -20% down from its previous high close, while a bull market occurs when the index rises 20% from its lowest close to the next market high. The concern now is whether this recent correction is the beginning of a bear market.

Data from the Schwab Center for Financial Research shows that there have been 22 market corrections since 1974; only four of them, occurring in 1980, 1987, 2000 and 2007, eventually ended up as bear markets. In the current bull market, which began in March 2009, there have been six corrections that avoided turning into bear markets, including, most recently, a dive in February 2018 that saw stocks back in record territory by late summer. Bear markets are often triggered by a recession. Fortunately, the U.S. economy is currently strong and shows no sign of an imminent recession. Nonetheless, when investors experience a month like October, it's often difficult to stay calm and understand the bigger picture. A look at the history of past bull and bear markets may provide some helpful context around this recent concern.

History of Bull and Bear Markets

No bull market lasts forever, and neither does a bear market. While bear markets can be scary, they are an inevitable part of long-term investing and can be expected to occur periodically. The adage stands true: What goes up must eventually come down. However, it's important to keep the occurrence of bear markets in perspective. The below chart shows historical performance of the S&P 500 Index throughout the U.S. bull and bear markets from January 1926 through September 2018. Although past performance is no guarantee of future results, we believe looking at the history of bull and bear markets helps provide a fresh perspective on the benefits of investing for the long term. The average bull market period lasted 9.1 years with an average cumulative total return of 480%, while the average bear market period lasted 1.4 years with an average cumulative loss of -41%. That's why long-term investors are usually better off staying the course and not pulling money out of the market.

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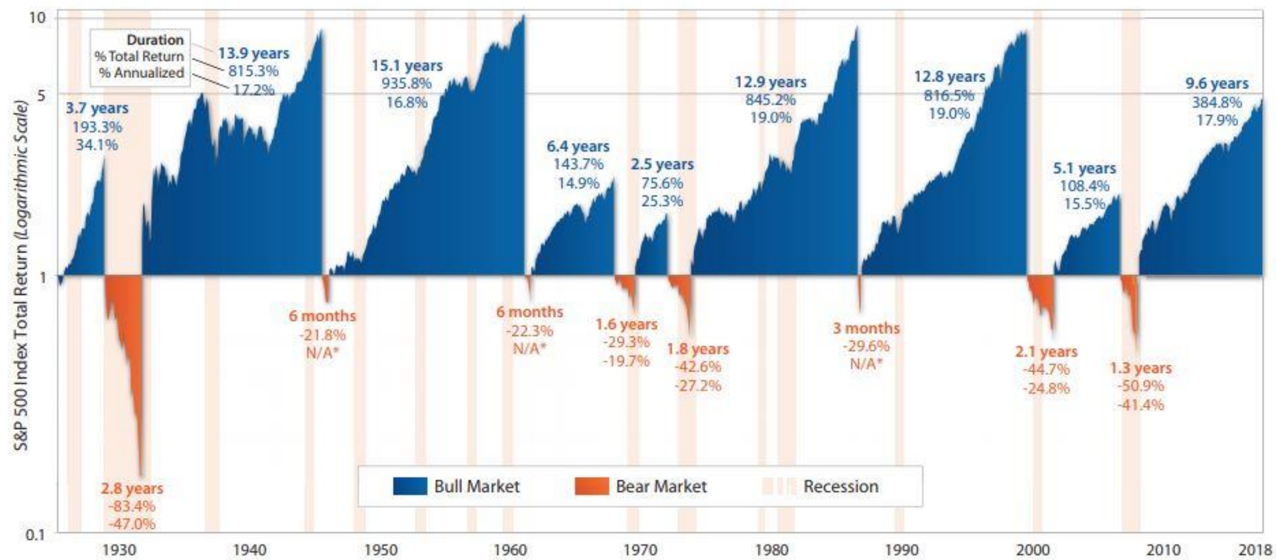

Source: First Trust Advisors L.P., Morningstar. Returns from 1926 - 9/28/18. *Not applicable since duration is less than one year.

These results are based on monthly returns–returns using different periods would produce different results. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.

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Conclusion

Recessions and bear markets are inevitable and normal. However, it is hard to predict when they will begin and when they will end. You can't get rid of the uncertainty or try to time the market with any level of consistency. However, investors can prepare for the ups and downs that are an inevitable part of the investing experience. This preparation begins with ensuring that investors examine their personal financial circumstances regularly and make appropriate adjustments. It is also important to review one's financial plan to ensure the portfolio's risk tolerance is aligned with the investor's long-term goals. In addition, having a diversified portfolio can help mitigate the risk in any single investment.* Finally, it's important to ensure investors' portfolios are rebalanced regularly to ensure portfolio risk is not skewed higher given the strong equity market returns since early 2009. Ultimately, investors should take advantage of today's strong economy to prepare for the next bear market – whenever that occurs.

*Diversification does not guarantee against loss or ensure a profit.

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