



Market/Economic Research

# The Bear Cub Market of 2020: Blink and You Missed It

Research Note

September 2020

Michael Rush, CFA

RESEARCH NOTE | SEPTEMBER 2020

# The Bear Cub Market of 2020

## Blink and you missed it

### Summarizing the shortest market cycle in a century

This brief research note serves as a supplement to our March piece, Managing through Market Drawdowns. Six months ago, the U.S. was in the midst of its first official bear equity market (down 20% or more) in more than a decade (when considering monthly return data). While it was recognized that the cause of this sell-off (the Coronavirus) was unlike anything most investors have experienced before, the research note referenced above reinforced the merits of disciplined rebalancing as a critical part of achieving long-term investment goals. Although the global economy is far from fully recovered (we do not mean for our lighthearted title to ignore some very serious underlying economic divergences) and unemployment remains elevated at 8.4%, the U.S. equity market fully recovered all of its losses from earlier this year by the end of July. The table below includes every market correction (down 10% or more) based on monthly returns from 1926 to today. It is worth noting that the last two corrections are among the shortest recovery periods in history.

Market Corrections Since 1926						Annualized Returns If Purchased at Peak		Annualized Returns If Purchase at Trough	
Date of Market Correction			Duration (# months)		Depth of Drawdown				
Peak	Trough	Recovered	Sell-off	Recovery		5 Years	10 Years	5 Years	10 Years
Aug-1929	Jun-1932	Jan-1945	34	151	-83.4%	-17.4%	-4.9%	34.8%	12.5%
Feb-1937	Mar-1938	Mar-1944	13	72	-50.0%	-8.6%	4.0%	13.0%	11.9%
May-1946	Oct-1946	Oct-1949	5	36	-21.6%	9.1%	15.5%	16.5%	18.6%
Jul-1956	Feb-1957	Jul-1957	7	5	-10.2%	10.0%	9.0%	14.0%	10.9%
Jul-1957	Dec-1957	Jul-1958	5	7	-15.0%	7.6%	10.7%	13.3%	12.9%
Dec-1961	Jun-1962	Apr-1963	6	10	-22.3%	5.7%	7.4%	14.3%	11.0%
Jan-1966	Sep-1966	Mar-1967	8	6	-15.6%	4.3%	4.0%	9.3%	6.5%
Nov-1968	Jun-1970	Mar-1971	19	9	-29.2%	0.4%	3.1%	8.7%	10.3%
Dec-1972	Sep-1974	Dec-1976	21	27	-46.4%	-0.1%	7.6%	20.3%	17.2%
Aug-1978	Oct-1978	Mar-1979	2	5	-11.2%	17.1%	14.8%	19.6%	16.8%
Nov-1980	Jul-1982	Oct-1982	20	3	-18.8%	12.1%	11.8%	28.1%	18.2%
Jun-1983	May-1984	Dec-1984	11	7	-10.8%	12.8%	13.3%	19.8%	15.1%
Aug-1987	Nov-1987	Apr-1989	3	17	-29.8%	7.7%	13.4%	17.1%	18.2%
May-1990	Oct-1990	Feb-1991	5	4	-16.8%	11.5%	16.7%	18.2%	19.2%
Jun-1998	Sep-1998	Nov-1998	3	2	-12.0%	-1.3%	3.6%	2.0%	4.0%
Aug-2000	Sep-2002	Mar-2006	25	42	-44.1%	-1.6%	-1.1%	16.5%	8.7%
Oct-2007	Feb-2009	Mar-2012	16	37	-51.0%	0.6%	7.6%	23.6%	16.8%
Sep-2018	Dec-2018	Apr-2019	3	4	-14.3%	?	?	?	?
Jan-2020	Mar-2020	Jul-2020	2	4	-20.7%	?	?	?	?
Market Correction Statistics (18)		Minimum	2	2	-83.4%	-17.4%	-4.9%	2.0%	4.0%
		Average	11	24	-27.5%	4.1%	8.0%	17.0%	13.4%
		Median	7	7	-20.7%	5.7%	7.6%	16.5%	12.9%
		Maximum	34	151	-10.2%	17.1%	16.7%	34.8%	19.2%
Bear Market Statistics (9)		Minimum	2	4	-83.4%	-17.4%	-4.9%	8.7%	8.7%
		Average	14	41	-39.8%	-0.4%	5.8%	18.3%	13.9%
		Median	15	32	-37.0%	0.4%	7.4%	16.5%	12.5%
		Maximum	34	151	-20.7%	9.1%	15.5%	34.8%	18.6%

Source: Wilshire Compass (S&P 500 1926-1970, Wilshire 5000 1971-Forward)

As can be seen in the summary statistics above, the median market correction is -20% and the median bear market is nearly double that. The discomfort of purchasing more of something that has quickly lost 20% of its value is completely understandable. However, a tremendous amount of empirical research supports the merits of timely rebalancing. The table below revisits the 19 market corrections and includes the following two additional columns:

- The return during the correction of a 60/40, equity/bond portfolio that is rebalanced monthly
- The return where an investor abandons their rebalancing policy in response to a 5% or greater equity drawdown

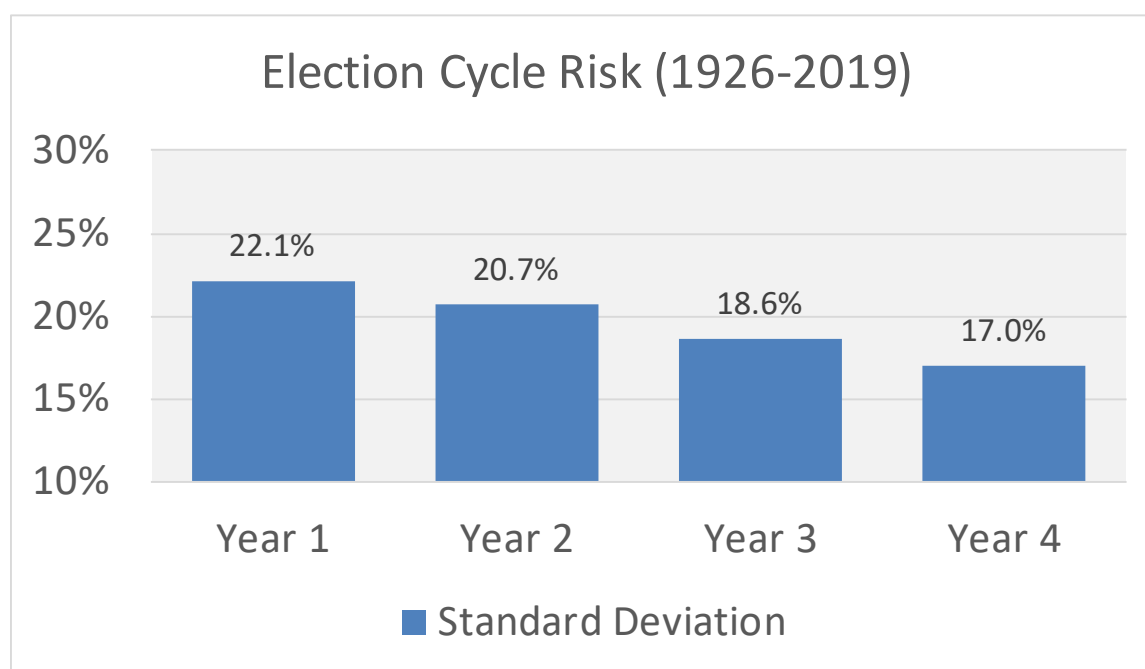
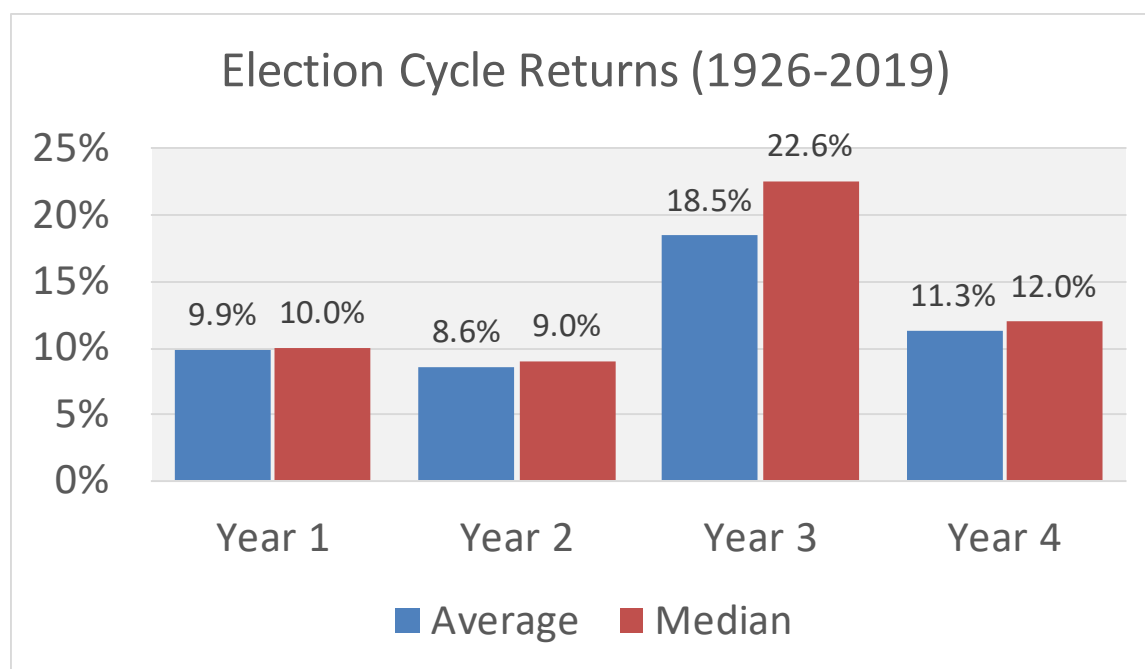
The last column (on the right) is the difference between these two portfolios. In all but one situation, the decision to not rebalance would have resulted in a lower total return during the period (~0.35% worse on average across market corrections and ~0.45% worse across the subset of bear markets). The historical record provides strong evidence supporting the value of following a disciplined rebalancing strategy. Note that abandoning rebalancing during this latest, 2020 bear market would have cost an investor an estimated 0.55% total fund return drag.

Rebalancing Impact during Market Corrections				Annualized Returns (Peak to Recovery)		
Date of Market Correction			Total # Months	Rebal (60/40)	React to Stocks <-5%	Net
Peak	Trough	Recovered				
Aug-1929	Jun-1932	Jan-1945	185	3.5%	2.8%	-0.68%
Feb-1937	Mar-1938	Mar-1944	85	6.1%	5.0%	-1.15%
May-1946	Oct-1946	Oct-1949	41	1.3%	1.0%	-0.24%
Jul-1956	Feb-1957	Jul-1957	12	-2.4%	-2.4%	-0.08%
Jul-1957	Dec-1957	Jul-1958	12	6.5%	6.3%	-0.26%
Dec-1961	Jun-1962	Apr-1963	16	3.8%	3.4%	-0.40%
Jan-1966	Sep-1966	Mar-1967	14	1.9%	1.8%	-0.09%
Nov-1968	Jun-1970	Mar-1971	28	2.6%	2.4%	-0.20%
Dec-1972	Sep-1974	Dec-1976	48	3.6%	3.4%	-0.21%
Aug-1978	Oct-1978	Mar-1979	7	1.9%	1.7%	-0.19%
Nov-1980	Jul-1982	Oct-1982	23	8.7%	8.9%	0.17%
Jun-1983	May-1984	Dec-1984	18	5.3%	5.2%	-0.10%
Aug-1987	Nov-1987	Apr-1989	20	4.3%	3.7%	-0.64%
May-1990	Oct-1990	Feb-1991	9	6.4%	6.2%	-0.25%
Jun-1998	Sep-1998	Nov-1998	5	2.5%	2.0%	-0.55%
Aug-2000	Sep-2002	Mar-2006	67	2.7%	2.5%	-0.19%
Oct-2007	Feb-2009	Mar-2012	53	3.3%	2.9%	-0.42%
Sep-2018	Dec-2018	Apr-2019	7	3.2%	2.9%	-0.31%
Jan-2020	Mar-2020	Jul-2020	6	4.1%	3.6%	-0.56%
Market Correction Statistics (18)		Minimum	5		Minimum	-1.15%
		Average	35		Average	-0.34%
		Median	18		Median	-0.25%
		Maximum	185		Maximum	0.17%
Bear Market Statistics (9)		Minimum	6		Minimum	-1.15%
		Average	55		Average	-0.47%
		Median	45		Median	-0.41%
		Maximum	185		Maximum	-0.19%

Source: Wilshire Compass (S&P 500 1926-1970, Wilshire 5000 1971-Forward)

# Where does 2020 go from here...a national election in the time of social distancing

If this year has not provided enough challenges, millions of Americans will endeavor this November to decide a presidential election. Further complicating things is the fact that mail-in voting will likely be higher this year and the prospect that there may not be a clear winner immediately following election night needs to be contemplated. In the event that equity markets react negatively to the outcome, investors should follow the same discipline that they would during any period of market stress. While we would not recommend timing the markets around an election, looking at risk and return during election cycles makes for some interesting observations. The following exhibit displays those statistics for each of the four years of every President's term back to 1926. While there is no clear, actionable pattern, it does seem that the first year of any cycle is the most challenging – lower returns with higher risk.



Regardless of the reason underpinning a market drawdown, the most successful investors follow the guidance set for them in advance – and usually decided during calmer times. Investing in growth assets means taking risk and periods of increased volatility are inevitable. Wilshire advises its clients to be very familiar with their Investment Policy Statement and comfortable with the approach to investing that it articulates. While it also is impossible to completely neutralize the effects of behavioral finance, long-term investing demands equally both thoughtful planning and disciplined implementation.

## Important Information

Wilshire Wilshire is a global financial services firm providing diverse services to various types of investors and intermediaries. Wilshire's products, services, investment approach and advice may differ between clients and all of Wilshire's products and services may not be available to all clients. For more information regarding Wilshire's services, please see Wilshire's ADV Part 2 available at [www.wilshire.com/ADV](http://www.wilshire.com/ADV).

This material contains confidential and proprietary information of Wilshire Associates Incorporated (Wilshire), and is intended for the exclusive use of the person to whom it is provided. It may not be disclosed, reproduced, or redistributed, in whole or in part, to any other person or entity without prior written permission from Wilshire.

This material is intended for informational purposes only and should not be construed as legal, accounting, tax, investment, or other professional advice. Past performance is not indicative of future results. This material may include estimates, projections, assumptions and other "forward-looking statements." Forward-looking statements represent Wilshire's current beliefs and opinions in respect of potential future events. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual events, performance and financial results to differ materially from any projections. Forward-looking statements speak only as of the date on which they are made and are subject to change without notice. Wilshire undertakes no obligation to update or revise any forward-looking statements.

This material represents the current opinion of Wilshire based on sources believed to be reliable. Wilshire assumes no duty to update any such opinions. Wilshire gives no representations or warranties as to the accuracy of such information, and accepts no responsibility or liability (including for indirect, consequential or incidental damages) for any error, omission or inaccuracy in such information and for results obtained from its use. Information and opinions are as of the date indicated, and are subject to change without notice.

Wilshire is a registered service mark of Wilshire Associates Incorporated, Santa Monica, California. All other trade names, trademarks, and/or service marks are the property of their respective holders.

Copyright© 2020 Wilshire Associates Incorporated. All rights reserved.

10988778 G0821