TEVIS
INVESTMENT MANAGEMENT

Beating the Bear

Technically, a bear market occurs when markets fall 20% or more. However, this definition can be misleading for a few reasons. First, there is no universal “market.” It’s possible for the Nasdaq to fall 20%, putting it in bear market territory, while the S&P 500® remains above that threshold.

Second, it’s important to realize that 20% is an arbitrary number. It doesn’t necessarily have a significance on its own; however, it’s become an important psychological marker for investors and analysts.

That psychological element is critical, as these downturns are often accompanied by investor and consumer pessimism. That can lead to an increase in short selling (where people bet against different investments, or the market overall). It can also cause a slowdown in the type of activity that normally drives growth—investing in innovation, initial public offerings, hiring, and more. Those side effects impact the overall economy and can sometimes be linked to a recession.

Three key things to remember

1. **Bear markets don’t mean consistent selling.** There are often rallies during bear markets, where stocks post gains—sometimes significant gains. That’s one reason it’s so important to stay invested even during bear markets because missing these periodic rallies can have a big impact on your investments’ performance.

2. **We build portfolios to account for this.** My goal when selecting client investments is to help you get to *your* goals. We aren’t trying to beat “the market;” we’re trying to create the best path to where you want to go. That’s where planning, diversification, and removing as much emotion from the equation as possible come into play.

3. **The stock market is not the economy, but there is a link between the two.** Think about it like this—if a company is worried about its share price, it may be reluctant to hire. A slowdown in hiring can affect the overall economy. Fewer jobs may mean less consumer spending, which could impact other companies, and so on.

Historical bear markets

Each bear market is unique, but it’s helpful for investors to understand how we entered, and recovered from, previous bear markets. There have been roughly 13 bear markets in the S&P 500® since its

inception in 1926. The most severe occurred during the Great Depression—in fact there were two bear markets during that window, since stocks rallied for two months in 1933, creating a technical bull market before falling again.

Of course, the bear market most of us remember best started October 9, 2007, following the Financial Crisis. The S&P 500 wouldn't bottom until March 2009, but the rally in stocks would start long before the economy itself recovered. (Another example of how the stock market and the economy are linked but not interchangeable.)

One of the biggest takeaways from that bear market is that selloffs aren't universal. During the Great Recession, discount retailers outperformed as Americans hunted for bargains. Often, there are sectors, companies, or asset classes that perform better than others during downturns.

There were good investments to be found in the 2001 bear market and the 2020 bear market as well. When the dot-com bubble burst, Americans continued to invest in their homes. In 2020, online retailers outperformed significantly.

These are the types of things we monitor during periods of volatility and uncertainty. Understanding the cause of different bear markets can help investors understand what assets, sectors, and individual investments might fare better than others.

Takeaways

It's important to remember that all bear markets end. But the volatility and selloffs that occur during these periods tend to cause investor stress. So it's important to keep a few things in mind.

If you have a long-time horizon, volatility doesn't matter very much. What matters is the general trend of your investments, not the ups and downs along the way. In fact, downturns can be a great opportunity to add to your holdings.

An investor I look up to once said, "Nervous energy is a great destroyer of wealth." And it's one of the best ways I can help you as an advisor. Because while it's natural to want to sell investments when the price is falling, this is the worst decision. Selling an investment on a down day solidifies a loss. Plus, as we mentioned earlier, there are often big rallies during a bear market, and you want to be invested for those.

If you're feeling some of that nervous energy, I hope this article helped. But if you have additional questions, feel free to reach out, or we can discuss at our next appointment.

Sources: Federal Reserve History, Wall Street Journal, McKinsey