The Coronavirus Bear and Its Place in History

Helping investors better understand bear markets, corrections and crashes

The pace with which the Coronavirus bear toppled the longest-running bull market in history was startling.

The Dow Jones Industrial Average officially entered the “Coronavirus bear market” in just 20 trading days, easily making it the fastest such slide in stock market history. The second fastest was 1929 and that took 36 trading days.

Lest we forget: the highest closing record for the DJIA was set on February 12, 2020, when it closed at 29,551.42. Less than one month later, on March 11th, the DJIA closed at 23,553.22, down 20.3% from its high and officially ending the longest-running bull market in history that started in March 2009.

Want more data to compare just how swift and severe this Coronavirus bear has been? Consider this: according to Bloomberg, the average number of days from peak market to bear market territory is 255 and the median is 156. There are exactly 253 trading days in 2020.

Bear Markets Defined

In technical terms, the stock market enters a bear market whenever stock prices have fallen over 20% from their recent peaks. A bull market, on the other hand, is when stock prices rise by at least 20%.

There is debate as to where the true origins of these expressions came from, but many suggest that it has to do with how each animal attacks: a bull thrusts its horns and enemies upward whereas a bear swipes its paws and enemies downward. Neither sound pleasant.

The silver lining, however, is that bear markets are typically shorter than bull markets. In fact, an examination of the historical performance of the S&P 500 from 1926 through March 2020 shows that:

- The average bear market lasted 1.3 years
- The average bull market lasted 6.6 years

Stock Market Corrections & Crashes

It is important to distinguish a bear market from a market correction, which is shorter and involves less of a market decline. Market corrections are short-term trends that typically last less than a few months and involve stock market declines of at least 10% – but not as severe as the 20% fall of a bear market.

Stock market crashes, by contrast, are when stock markets plummet by more than 10% in a single day. The Great Crash of 1929 consisted of market drops of 13% and 12% on successive days. The stock market crash of October 19, 1987 – known as Black Monday – saw the market drop 23%. And on March 16, 2020, the market crashed when it dropped 13%.

American Resilience

Historical Bear Markets

Between 1926 and March 2020, there have been eight bear markets, ranging in length from about 6 – 24 months and bringing market declines ranging from more than 80% to just over 20%. Here are the more memorable bear markets.

- Great Crash of 1929: 83.4% drop and lasting 34 months
- Vietnam & Assassinations of 1968-1970: 29.3% drop and lasting 18 months
- Oil Embargo of 1973-1974: 37% drop and lasting 24 months
- Crash of 1987: 29.5% drop and lasting 3 months
- Dot.com Bubble of 2000-2002: 44.7% drop and lasting 25 months
- Subprime Mortgage Crisis of 2007-2009: 50.9% drop and lasting 17 months
- Coronavirus of 2020: TBD

Beware of Bear Market Rallies

In a normal bear market, there will of course be days or weeks when markets rise. It is important, however, to distinguish a bear market rally from the beginning of a bull market.

Consider the rallies that occurred during a few of the past bear markets:

Bear Market	Bear Market Rally	Days After Rally Until Bear Market Hit Bottom	Return 3 Years After Bear Market Rally
Coronavirus	25%	Unknown	Unknown
Subprime Mortgage Crisis	24%	42	46%
Dot.Com Bubble	21%	212	7%
Dot.Com Bubble	21%	33	34%
October 1987	15%	31	47%

Source: Bloomberg. Past performance does not guarantee future results.

The reality is that even bear markets will have what some might wrongly call bull market phases.

Tips for Investors

The question is: should the average investor remain invested when a bear market starts swiping its paws and everything downward?

While the answer to that question depends on the individual investor, it is important to beware of the tendency to over-react to fears of a bear market or thrills of a bull market. Often times, individual investors tend to let their emotions adjust their holdings, which can result in selling after prices have fallen sharply, instead of buying at low prices (or buying after stocks have risen to unsustainable heights).

Whether you will be able to out-wait the Coronavirus bear market and rebuild your portfolio to your satisfaction depends upon a deluge of factors, including the duration of the Coronavirus bear, your risk tolerance, your time to invest, the strength of your investments and the choices you make going forward.

But your financial advisor can bring you careful planning and a cool head to help you reach your goals.