Cherry Tree Wealth Management

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CHERRY TREE WEALTH INSIGHTS: Published by Keith Tufte, President of Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.

INVESTING QUOTE OF THE MONTH:

About once a decade people forget that bubbles form and burst about once a decade." — Morgan Housel

WHEN WILL THIS BEAR MARKET END?

We recently entered a bear market in U.S. stocks, as defined by a drop of 20% or more from the recent peak. Many investors are wondering how much lower might stocks go this year, and when will this bear market end? Nobody knows the answers to these important questions for sure, but it may be helpful to look at the history of previous bear markets for some perspective. Below is a table from Charlie Bilello of all the U.S. Bear markets since 1929.

SEVERAL OBSERVATIONS ON PREVIOUS BEAR MARKETS:

- Bear markets (drops of 20% or more) happen fairly often. They are a "normal" part of investing. There have been 22 bear markets since 1929, or one every 4.2 years. The key is to ride it out and be there for the eventual recovery in the market.
- Bear markets last on average about a year, and the average total drop in the market during a bear market has been about 36%. In 2022 the U.S. stock market (S&P500 index) is down about 23% (as of June 20th) and we are about 6 months into the current bear market.
- Bear markets have coincided with an economic recession about half the time (12 recessions and 22 bear markets). The stock market has dropped more than average (down 42%) if the bear market also contains an economic recession. At this point nobody knows for sure if we will have a recession later this year. Many people think the odds are around 50% of a recession in the next 12 months due to rapid Federal Reserve interest rate hikes to ease the high inflation rate.
- If we end up with an average bear market drop of 36% this year in U.S. stocks, and stocks are already down 20% or more, then stocks are already over halfway to the bottom. It seems to us that it is likely "too late to sell."

S&P 500 Bear Markets (defined by 20% Peak to Trough Decline): 1929 - Present

Bear Market Period	Length of Bear Market (Months)	NBER Recessions	Length of Recession (Months)	S&P Start	S&P End	% Change
Jan 2022 to ?	?	?		4819	3810	-21%
Feb 2020 to Mar 2020	1	Feb 2020 to Apr 2020	2	3394	2192	-35%
Sep 2018 to Dec 2018	3			2941	2347	-20%
May 2011 to Oct 2011	5			1371	1075	-22%
Oct 2007 to Mar 2009	17	Dec 2007 to Jun 2009	18	1576	667	-58%
Mar 2000 to Oct 2002	31	Mar 2001 to Nov 2001	8	1553	769	-51%
Jul 1998 to Oct 1998	3			1191	923	-22%
Jul 1990 to Oct 1990	3	Jul 1990 to Mar 1991	8	370	295	-20%
Aug 1987 to Oct 1987	2			338	216	-36%
Nov 1980 to Aug 1982	22	Jul 1981 to Nov 1982	16	142	102	-28%
Sep 1976 to Mar 1978	18			109	86	-20%
Jan 1973 to Oct 1974	21	Nov 1973 to Mar 1975	16	122	61	-50%
Dec 1968 to May 1970	17	Dec 1969 to Nov 1970	11	109	69	-37%
Feb 1966 to Oct 1966	8			95	72	-24%
Dec 1961 to Jun 1962	6			73	51	-29%
Aug 1956 to Oct 1957	14	Aug 1957 to Apr 1958	8	50	39	-21%
Jun 1948 to Jun 1949	12	Nov 1948 to Oct 1949	11	17	14	-21%
May 1946 to May 1947	12			19	14	-28%
Nov 1938 to Apr 1942	36			14	7	-46%
Mar 1937 to Mar 1938	12	May 1937 to Jun 1938	13	19	9	-54%
Jul 1933 to Mar 1935	20			12	8	-34%
Sep 1932 to Feb 1933	5	Aug 1929 to Mar 1933	43	9	6	-41%
Sep 1929 to Jun 1932	33	Aug 1929 to Mar 1933	43	32	4	-86%
Average Without Recession	**12**					**-29%**
Average With Recession	**16**					**-42%**
Average All	**14**					**-36%**

COMPOUND @CharlieBilello

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- There are three smart things to do during a bear market: 1) tax-loss harvesting 2) rebalance your portfolio by gradually adding to stocks and 3) stick with your investment strategy and ride it out.
- Remember that time is your friend and the odds are in your favor over the long-term when you hold stock funds. Historically 87% of all rolling 5-year time periods since 1928 have had positive returns in U.S. stocks. It has only taken an average of about two years (25 months) to get back to break even from the bottom of all the bear markets in US stocks since 1944 according to Ben Carlson of Ritholtz Wealth Management.
- There is one especially bad move you can make during a bear market, which is to get scared out of the market and "sell low" after we have already had a considerable market decline (like now). That will turn a temporary paper loss into a permanent loss of capital.
- Certain parts of the stock market look much cheaper than others right now on valuations. In our opinion value stocks, high dividend stocks, and international stocks still look much more attractive than U.S. large growth/technology stocks, in spite of their significant outperformance so far this year.
- If stocks continue to decline from current price levels, we believe it will be an attractive time to be adding to stocks at reasonable valuations.
- Keep in mind if you are young and/or are still working and saving money, a bear market in stocks is a positive for you, as you can now keep adding to stocks at lower price levels and expect even better long-term returns.

- The rapid increase in interest rates has hit bonds and bond funds significantly this year, one of the worst bond return years in history. However, that has resulted in significantly more attractive yields going forward on bond funds of 3%-4%, nearly double what they were a year ago.
- The lower stock and bond prices go now, the higher your future expected returns will be. Stick with your investment strategy and portfolio so you are still there for those higher expected future returns.

Please contact us anytime with questions you may have about this bear market, your portfolio, or your financial plan.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte, (President of CTW) has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at www.cherrytreewealth.com or email cherrytreewealth@cherrytree.com.

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