EISNERAMPER
WEALTH MANAGEMENT
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No Pain, No Gain: Disciplined Investing Through Anxious Times

Last year's strong global equity performance followed on the heels of a decade-long bull market, underscoring how far the recovery has come from the depths of the financial crisis.

However, it may also explain some investors' fears that we may be closer to the beginning of the next stock-market downturn than we are to the next period of exceptional gains. The recent trend of moderating global economic activity and growth has been another source of anxiety, contributing to a sense of unease among investors.

The rebound can be sharper than the decline

When downturns come to mind, investors are often fearful of bear markets—which are typically defined as declines of 20% or more in a broad stock market index (such as the S&P 500 Index or the Dow Jones Industrial Average).

No one likes to see the value of their investments decrease. But we know that ups and downs are a normal part of the investment cycle, even if recent market history suggests otherwise. And remaining disciplined within an appropriate investment strategy through a downturn—in order to fully participate in its eventual recovery—typically serves investors well.

Exhibit 1 shows total returns of the global and U.S. stock markets in the one-year periods leading up to and following a bear-market bottom. This data suggest that rebounds are often bigger than declines by more than one-and-a-half times.

Exhibit 1: Stock-Market Performance Surrounding Bear Markets

Global stock market		
Date of Market Bottom	Return in the preceding year	Return in the subsequent year
10/4/74	-41.6%	28.8%
8/12/82	-23.4%	47.3%
10/26/87	14.7%	24.7%
9/28/90	-22.6%	20.9%
10/5/98	-5.3%	38.1%
10/9/02	-23.9%	38.7%
3/9/09	-49.6%	75.4%
Average	-21.7%	39.1%

U.S. stock market		
Date of Market Bottom	Return in the preceding year	Return in the subsequent year
10/22/57	-12.3%	36.2%
6/26/62	-16.4%	37.5%
10/7/66	-16.3%	37.3%
5/26/70	-31.1%	48.9%
10/3/74	-40.3%	44.4%
8/12/82	-18.6%	66.1%
12/4/87	-8.7%	26.0%
10/9/02	-25.4%	36.1%
3/9/09	-46.3%	72.3%
Average	-23.9%	45.0%

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Global equity performance reflects returns of MSCI World (Gross) relative to historic market troughs surrounding seven bear markets since 1970 (based on availability of daily data from January 1, 1970 through December 31, 2019). U.S. equity performance reflects returns of S&P 500 Index surrounding nine bear markets since 1950 (based on the post-war period; daily data from January 1, 1950 through December 31, 2019). Bear markets defined as price declines of 20% or more. ***Source: Bloomberg, SEI Private Trust Company****. The S&P 500 Index launched on March 4, 1957. The MSCI World Index launched on Mar 31, 1986. All information for an index prior to its launch date is back-tested, based on the methodology that was in effect on the launch date. Back-tested performance, which is hypothetical and not actual performance, is subject to inherent limitations because it reflects application of an index methodology and selection of index constituents in hindsight. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns will diff from and may be lower than back-tested returns.*

Based on the averages for global equities shown in Exhibit 1, if we combine the -21.7% decline and the 39.1% rebound, the net result was a gain of 8.9%, on a cumulative basis. Unsurprisingly, the returns leading up to a bear-market bottom were all negative, with one exception. Global equities still managed to eke out a positive return for the year leading up to the market bottom in October 1987. This was a result of global equities gaining as much as 50% before subsequently losing more than 20% in the months around the so-called Black Monday market crash on October 19, 1987. Excluding the somewhat anomalous bear market of 1987, the average experience across the six remaining bear markets for global equities still produces a positive net result.

In the U.S., where more historical data is available, the year leading up to the last nine market bottoms had an average decline of almost 24% and an average rebound of 45%, which combine for a net cumulative gain of 10.3%. Again, excluding 1987, the average net result was still positive. The significant decline in U.S. equities at the end of 2018 just barely missed qualifying as a bear market, but their performance in 2019 demonstrated that the rebound can be much stronger than the decline.

Keep calm and carry on

The ups and downs of the market, while sometimes stressful, are normal. No one knows exactly when they'll happen or how long they'll last.

As always, we continue to promote diversification and taking the minimum amount of risk possible while remaining aligned with investment goals. If a portfolio has become more concentrated and may therefore benefit from further diversification—or if an investor's goals or risk tolerance have changed—then reviewing their asset allocation may be warranted.

But, unless there is a strategic reason to change course, it's important to remember that accurately predicting major turning points in financial markets is near-impossible. Making significant changes to a portfolio solely on the basis of such predictions may be costly in the end. Staying the course may help investors to avoid falling short of their goals.

Our analysis aims to reinforce the notion that keeping calm and remaining disciplined should produce better long-term investment results. Also, keep in mind that a well- diversified portfolio may soften the blow of a market downturn. It may not deliver outsized gains in up markets, but it may help to mitigate outsized losses in down markets, which should help investors stay on track to meet their goals.

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Anxiety about market volatility is only natural. Yet most investors only focus on the downturn, without giving thought to the eventual rebound. If you're having trouble sticking to your long-term plan, just remember that the rebound may be sharper than the decline.

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As always, information provided should be considered based on your personal needs to accomplish your goals. At EisnerAmper, we will be happy to discuss with you any questions and how these principals can be applied to meeting your financial plan. Feel free to contact Marc Scudillo, Managing Partner of EisnerAmper Wealth Management & Corporate Benefits, LLC; 908-429-0025 or email at mscudillo@eawmcb.com