STATERA
ASSET MANAGEMENT

Commentary: September 2018

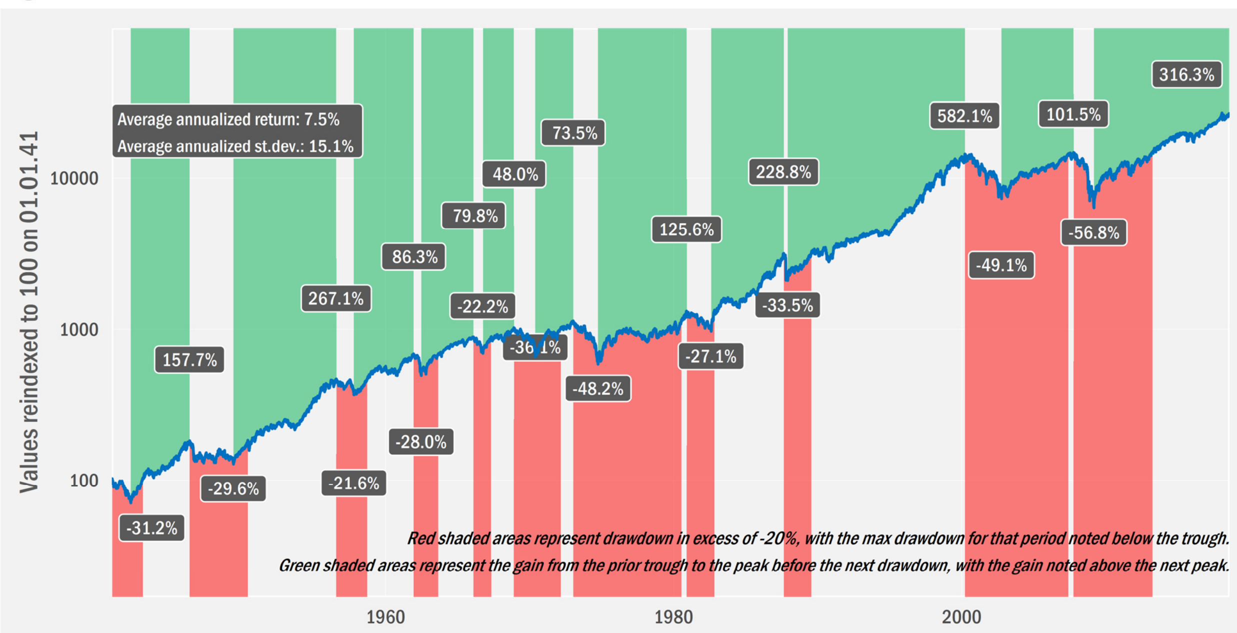
MILEAGE VARIES

Lots of folks talking about how long-in-the-tooth is this bull market. Some conclude the end is near. Others see room to run. Regular readers hopefully can guess what we think. Regardless how one determines bull markets, neither its eventual length, nor the length and depth of the drawdown that succeeds it are determinable in advance. Calling a bull-run “old” gives it an unwarranted sell-by date. Implying there’s great room to run similarly disregards market unpredictability. Bull-market variables like duration and magnitude do not have natural ranges. Cyclical bull/bear outcomes are further examples of market randomness. Suggesting otherwise serves little good in assisting clients in their pursuit of financial goals.

Random in Time

Just as equity markets have no natural ranges, neither does the industry have a standard way of defining them. For our purposes, we choose for this review to define a bull market only by the drawdown (bear market) that proceeded it. We define bear markets as those periods over which the market experienced a 20% or greater drawdown in price. We exclude dividends and the reinvestment thereof, as commentators tend to focus on index price levels, which generally reflect similar exclusions. A bull market lasts until the start of the next drawdown, which may be marked only after the decline passes whatever loss threshold one has set. Figure 1 applies these definitions to the historical performance of the S&P 500 Index.

Figure 1: S&P 500 Historical Drawdowns and Gains



Logarithmic scale. Daily price data (excludes the effects of dividends) from 01.02.41 to 07.31.18. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. SOURCE: SRCM using data from Bloomberg

We think the takeaways are rather straightforward. First, the numbers are all over the place. Might seem like there are a good many drawdowns close to 20%, but that's just a function of the breakpoint we chose to define a drawdown. There'd be a good number of drawdowns in the high teens had we chosen a 15% decline as the bear-market threshold. Otherwise, some drawdowns fall deeper, and some bull markets run higher. The durations of bull and bear markets are similarly various, with the chart expressing little rhyme or reason outside of reflections of how we defined such periods of market history.

Get Even to Grow

One component clearer in more recent history, however, is that while drawdowns seem to reach the trough relatively quickly, the time to get back to breakeven can be long. In Figure 2, we show the dates that go along with Figure 1. After the Technology Bust, the market barely made it out of the hole over the next five years before falling by half again. Since the trough in March 2009 after the Financial Crisis, the S&P 500 took four years to get back to breakeven. Post-bear bull markets can be tests of patience and fortitude.

Figure 2: Dates of S&P 500 Historical Drawdowns and Gains

Drawdown Begin	Drawdown Trough / Gain Begin	Drawdown End	Duration of Drop (days)	Length of Drawdown (days)	Days to Breakeven	Gain Peak	Duration of Gain (days)	Percent of Gain Days to Breakeven
01.13.41	04.28.42	02.24.43	470	772	302	05.29.46	1492	20%
05.31.46	06.13.49	06.09.50	1109	1470	361	08.02.56	2607	14%
08.03.56	10.22.57	09.24.58	445	782	337	12.12.61	1512	22%
12.13.61	06.26.62	09.03.63	195	629	434	02.09.66	1324	33%
02.10.66	10.07.66	05.04.67	239	448	209	11.29.68	784	27%
12.02.68	05.26.70	03.06.72	540	1190	650	01.11.73	961	68%
01.12.73	10.03.74	07.17.80	629	2743	2114	11.28.80	2248	94%
12.01.80	08.12.82	11.03.82	619	702	83	08.25.87	1839	5%
08.26.87	12.04.87	07.26.89	100	700	600	03.24.00	4494	13%
03.27.00	10.09.02	05.30.07	926	2620	1694	10.09.07	1826	93%
10.10.07	03.09.09	03.28.13	516	1996	1480	07.31.18	3431	43%

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Long-Term Focus/Near-Term Conscious

We also included all the numbers in Figure 2 to further express the rather randomness of market cycles. The fact that drawdowns can be deep and long-lasting further highlights the need for folks to be cognizant that equity markets can be quite unkind over shorter-term time frames, even as they have proved fine potential means of building wealth over the long term. With short- and long-term frames of references always specific to the individual, for whom emotions may play an outsized role in such decisions, an advisor can help investors balance near-term risks with longer-term investment expectations and goals.

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The S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market.

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