

# Positioning for a Market Rebound

The experience of a declining market or perceived recession can be a heart racing experience. The temptation to move investments to historically safer territory can be overwhelming.

But history tells us that sticking with your long-term investment plan, including higher-risk equity positions, may give you something you wouldn't have standing on the sidelines – a better opportunity to take advantage of the markets' recovery.

We say perceived recession because economists don't agree on a single definition, and usually can't be certain one occurred until well after the fact.

Since World War II, the United States has witnessed approximately 10 recessions by the classic definition, lasting anywhere from six to 16 months and varying in severity. The classic definition of a recession is a decline in Gross Domestic Product (GDP) for two or more consecutive quarters.

Today, many economists go further, taking a range of economic data into account. The Business Cycle Dating Committee at the National

Bureau of Economic Research (NBER) provides a comprehensive determination by factoring in measurements such as employment, industrial production, real income and wholesale-retail sales.

Still, because any definition requires backward-looking measurements, the stock market usually begins reacting to recessionary pressures well before anyone can be certain that a recession is taking place. This makes timing the bottom of the market extremely difficult.

Looking back at the most recent recession, the S&P 500 experienced three straight years of negative performance (2000-2002) before rebounding with five consecutive years of positive results (2003-2007). While past performance offers us no guarantees for the future, historically, some of the most dramatic market gains have followed market lows or while coming out of a recession.

(Dividends not included in numbers below.)

## During Recessions

S&P "Bottoms"			Returns for 1-year after finding the market bottom		
*During Recession	S&P Level	% Change Peak to Bottom	Date	S&P Level	% Change 1-year
9/14/1953	22.71	-14.82	9/14/1954	31.28	37.74
10/22/1957	38.98	-21.47	10/22/1958	51.07	31.02
10/25/1960	52.2	-14.02	10/25/1961	68.34	30.92
5/26/1970	69.29	-36.06	5/26/1971	99.59	43.73
10/3/1974	62.28	-48.20	10/3/1975	85.95	38.01
3/27/1980	98.22	-17.07	3/27/1981	134.65	37.09
8/12/1982	102.42	-27.11	8/12/1983	162.16	58.33
10/11/1990	295.46	-19.92	10/11/1991	381.45	29.10
10/9/2002	776.76	-49.15	10/9/2003	1038.73	33.73

\*2002 low was 10 months after recession ended.

**Recessions** | Since 1950 they have averaged 10.3 months in duration, but the S&P 500 historically peaked 8.1 months before the average recession officially started. The market typically "predicts" a recession is coming.

## Corrections

S&P corrections and subsequent performance				
Date of market low	S&P Level	Correction	Following 1-year returns	Following 2-year returns
5/26/1970	69.29	-36.06%	43.73%	59.71%
10/3/1974	62.28	-48.20%	38.00%	67.00%
3/6/1978	86.90	-19.41%	12.62%	25.03%
3/27/1980	98.22	-17.07%	37.09%	13.97%
8/12/1982	102.42	-27.11%	58.33%	61.52%
12/4/1987	223.92	-33.51%	22.78%	56.93%
10/11/1990	295.46	-19.92%	29.10%	37.90%
10/27/1997	876.99	-10.79%	21.48%	47.86%
8/31/1998	957.00	-19.34%	37.93%	58.54%
10/9/2002	776.76	-49.15%	33.73%	44.46%

S&P 500 Annualized Return 1/1/1968 to 12/31/2007 = 11.23%

**Corrections** | The markets have seen 10 significant market corrections (> 10% declines) since 1970, including 4 not related to recessions. In each instance, the market has advanced at an above average rate over the year following the market bottom.

The S&P 500 is based on the average performance of 500 widely held common stocks. The S&P 500 is a broad-based measurement of changes in stock market conditions. Index returns do not reflect the deduction of fees, trading costs or other expenses. The Index is referred to for informational purposes only; the composition of the S&P 500 is different from the composition of the accounts managed by the investment manager. Investors may not make direct investments into any index. Past performance may not be indicative of future results.