



ASK MARK

How long do bear markets typically last? Which was the shortest, and which the longest-lasting?

Questions such as yours have become far more frequent over the last month, as the stock market suffered its first full-scale correction since 2011. (See box at the lower right corner of this page.)

Before I summarize the historical data, however, I should warn you that making bets based on historical averages can be hazardous to your wealth. Even assuming that the future is like the past, which is a big assumption, you still have to contend with the significant variability that exists between individual bear markets.

Remember all the warnings over the last four years about the frequency of greater-than-10% corrections during bull markets? We were told that they occur every 12 months, "on average." And, yet, the stock market went four years without one.

To calculate the average length of past bear markets, I relied on a bear-market calendar maintained by Ned Davis Research, the quantitative research firm. Since 1900,

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HFD EXCLUSIVE

Preparing for the coming bear market

I have no idea whether a bear market began last May 21, the day the S&P 500 hit what so far is its closing all-time high. At its late-August low, this benchmark was 12.4% below that all-time high; as this issue goes to press it's 8.3% below.

I do know that a lot of you are running scared, however, and are hastily building up cash on the assumption that a major bear market has indeed begun. Even if your assumption is right, my hunch is that many of you are making big mistakes.

I say this because of the investment approaches pursued by the advisers who have performed the best since the last two times the stock market entered an extended bear market. Those times, of course, were October 2007 (just before the Great Recession) and March 2000 (just as the Internet bubble was bursting). The top performers since each of those two market tops are the ones we should be most closely paying attention to if

Correction or bear market?

At its lowest level recently, the Dow Industrials were 14.4% below their closing high from this past May. That is more than enough to satisfy the unofficial criterion of a correction—which is a drop of at least 10%. However, the Dow is still well short of the 20% loss threshold to satisfy the definition of a major bear market.

The Dow has been the worst performer of the major benchmarks. The maximum extent of the S&P 500's decline was 12.4%, while the NASDAQ Composite's was 13.6%.

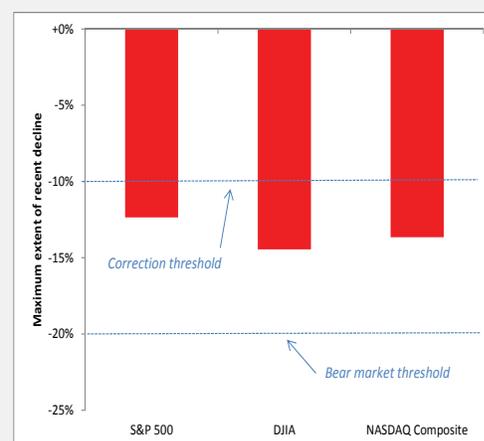


we're now entering into a bear market.

Long-term focus on stock selection

Surprisingly, these top performers' strategies are just the opposite of what many of you are choosing to do now. Rather than dumping stocks in the face of the market's extraordinary volatility, they were focusing on identifying undervalued stocks they would hold for

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according to the strict criteria they employ for defining a major bear market, there have been 35 such major declines. Their average length is 407 days, equivalent to a little more than 13 months. The median bear market lasted 363 days, or essentially one year. Assuming a bear market began on May 21 (the date of the S&P 500's high), and this bear market lasts as long as the historical average, a new bull market will not begin until July 1, 2016.

The shortest bear market of the last 115 years, according to the Ned Davis Research calendar, lasted just 45 days. This was the one that occurred between July 17 and August 31, 1998, coincident with the Russian ruble crisis and the bankruptcy of Long Term Capital Management. Of course, it's already been longer than 45 days since the S&P 500's all-time high last May.

The longest bear market since 1900, according to Ned Davis' calendar, lasted 959 days—or nearly three years. That was the one that began in September 1939, right at the beginning of World War II, and which lasted until April 1942. We can only hope that our next bear market doesn't last that long, since—if it were to do so, and assuming it began last May 21—the next bull market wouldn't begin until January 2018.

Subscribers interested in submitting a question to be answered in this space, or in being interviewed about their experiences with investment newsletters should send an e-mail to Mark directly at mark.hulbert@dowjones.com.

Preparing for the coming bear market

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the longer term.

Take a look at Table 1 to the right, which lists the top five performing advisory services since the March 2000 bull market peak (among those the HFD monitors). The model portfolios that the HFD has constructed to follow these particular services' advice are always (or, in one case, almost always) fully invested, so their stellar returns over the last 15+ years cannot be traced to superior market timing. Furthermore, as you can see from the Table, these top five services tend to hold their recommendations for quite some time. The average holding period of current positions held in all five services' model portfolios, in fact, is 2.6 years*.

These top performers are not prone to panic, in other words. Here's what *The Investment Reporter* had to say in early September: "The drop in stock prices is no disaster for investors building their portfolios. Instead, it gives you a great opportunity to pick up stocks at attractively-low prices."

Top performers since 2007 market high

A similar theme emerges from Table 2 below, which shows the top five performers since the October 2007 bull market peak. To be sure, the model portfolios of two of these top five—*Medical Technology Stock Letter* and *Nate's Notes*—are not always fully invested.

Table 1. Top 5 since 2000 bull market peak

Advisory service	Mar '00 to Aug '15 (annualized)	Current positions' average holding period (in years)
The Investment Reporter	11.2%	5.2
The Turnaround Letter	11.1%	2.3
Investment Quality Trends	10.3%	2.8
Investor Advisory Service	10.3%	0.5
The Buyback Letter	10.3%	0.7
Wilshire 5000 Index (w/ dividends)	4.2%	

But we need to carefully draw the correct conclusions from their records, since often the market timing in which they are engaged is to go from being heavily margined to being "merely" fully invested*.

Preparing for the next bear market

Preparing for the next bear market, according to these top performers, therefore becomes more a matter of contingency planning than it does of deciding whether a bear market has begun. These advisers figure out in advance how best to react when the market declines—as it inevitably does on occasion. That way, when the inevitable does happen, they can react calmly

George Putnam, editor of *The Turnaround Letter*, is another of the top performers over the last 15 years who has benefitted from contingency planning. In early September he wrote: "It is very important not to let the market volatility spook you into bailing out of stocks or taking other similar drastic action... Many investors who do bail out at the first sign of trouble finally build up their courage and get back into stocks just as the market peaks and heads for another dip."

Advisory service	Oct. '07 to Aug. '15 (annualized)	Current positions' average holding period (in years)
Linde Equity Report	16.3%	1.6
Medical Technology Stock Letter	16.0%	3.0
Forbes Special Situation Survey	13.4%	0.7
Nate's Notes	13.4%	2.2
Motley Fool Inside Value	11.3%	0.4
Wilshire 5000 Index (w/ dividends)	5.8%	

*Note also that the holding periods for *Forbes Special Situation Survey* and *Motley Fool Inside Value* (in Table 2) and *Investor Advisory Service* (in Table 1) are artificially low. That's because the HFD constructs model portfolios for them that hold only those stocks that the services' rate as "Buys." There typically is a far longer period of time from when one of these services first recommends a stock and it is permanently removed from its list of open recommendations.