

Timing Recessions and Market Rallies

How to make sure you hit the rallies when the recession ends

provided by Jude Wilson RFC, MBA

Since 1931, there have been more than 12 recessions. During each of these recessions, news headlines have been similar: massive job losses, falling retail sales numbers, stock market crashes. In addition to sharing the same type of gloomy news reports, each of these recessions have a few things in common: the circumstances highlighted in the news did not last forever, stock markets did eventually recover and the recessions did eventually end.

History has shown that the market regularly goes through up and down cycles. The most recent 10 recessions had an average duration of 10.4 months. The current recession has already lasted for 15 months as of March 2009,¹ indicating that, while past performance is not necessarily indicative of future results, the end may be near. Recent stock market rallies may be additional indicators of the end of the recession, although most economists and analysts believe the recovery will likely come in many V-shapes, meaning that market rallies will likely be accompanied by market dips. Yet returns following recessions in the past have been significant.

Consider the following chart that shows the average annual returns of the S&P 500 Index after suffering declines of 20% or more.

Note that in all of the recessionary periods examined with at least a 20% stock market decrease, the market has posted significant returns in the 1, 3, 5 and 10-year periods immediately after the low.

**Average Annual Returns of the S&P 500 Index
After Declines of 20% or More²**

Market Bottom	1 Year Later	3 Years Later	5 Years Later	10 Years Later
September 2002	22.2%	14.7%	13.4%	N/A
November 1987	18.8%	11.8%	13.4%	15.3%
July 1982	51.8%	21.3%	24.4%	14.8%
September 1974	32.0%	15.0%	11.5%	10.1%
June 1970	37.1%	13.0%	4.6%	4.3%
June 1962	26.7%	15.4%	10.6%	6.9%
Avg Annual Returns	31.4%	15.2%	13.0%	10.3%

While we can't predict exactly when the current recession will end, we do know that the stock market typically begins to recover from recessions well before the overall economy recovers. This means that the overall economy is not particularly helpful in helping to predict the timing of the stock market's recovery. And if you miss the early rallies, then you are likely to miss some of the sharpest market gains. The pitfall of trying to time the market is that you almost never get back into the market at bottom.

If you are a long-term investor, then your asset allocation mix is designed to help you mitigate risk. If you believe in buying low and selling high, then being in the market during recessionary periods and continuing to invest in regular intervals will help ensure that you buy low. The only way to capitalize on the mar-

ket's eventual recovery is to be invested in the market before the recovery starts to happen. Please call my office today if you have any questions about your portfolio or financial situation. As your financial consultant, I want to help you feel more comfortable with your financial matters.

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Citations.

¹Source: Kiplingers

² Monthly S&P Index. Declines of 20% or more from previous market peak, based on month-end index levels. Past performance cannot guarantee future results.