

Bear Necessities: Down Markets Often Breed Opportunity



Historical U.S. Stock Bear Markets (1926-2008)

Peak	Trough	Duration (Months)	Bear Market Magnitude	Recession During Bear?	1-Yr Return After Trough
9/3/1929	7/8/1932	34	-86%	Yes	124%
3/10/1937	4/28/1942	61	-60%	Yes	59%
3/24/2000	10/9/2002	31	-49%	Yes	34%
1/11/1973	10/3/1974	21	-48%	Yes	38%
10/9/2007	10/10/2008	12	-43%	?	?
11/29/1968	5/26/1970	18	-36%	Yes	44%
8/25/1987	12/4/1987	4	-34%	No	23%
5/29/1946	6/13/1949	37	-30%	Yes	42%
12/11/1961	6/26/1962	6	-28%	No	33%
11/28/1980	8/12/1982	21	-27%	Yes	58%
2/9/1966	10/7/1966	8	-22%	No	33%
8/2/1956	10/22/1957	14	-22%	Yes	31%
7/16/1990	10/11/1990	3	-20%	Yes	29%
Average (excluding 07-08):		22	-39%	-	46%

Source: ISI, Bloomberg, National Bureau of Economic Research, Haver Analytics, FMRCo (MARE) as of 10/20/2008. Recessions are defined by the National Bureau of Economic Research.

[i] – All stock returns represented by S&P 500 Index returns.

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Bear Markets: Painful, But Not Uncommon

- ▶ There have been 13 bear markets (periods when the stock market declines by 20% or more from peak to trough) since 1926, an average of one every six years.¹
- ▶ Down 43% in the past 12 months (October 2007 peak to October 2008 trough), the current downturn already ranks as the fifth worst bear market ever, just behind 1973-74 and 2000-02.
- ▶ However, the duration of the downturn so far is relatively short, only 12 months versus an average duration of 22.
- ▶ The duration is particularly brief compared to prior severe market drops associated with economic recessions.
 - Recessions frequently accompany bear markets, coinciding with the five worst bear markets and nine of the 12 overall (prior to 2007).
- ▶ Bear markets accompanied by recession have tended to be longer, all but one lasting 14 months compared to eight months or less for the three bear markets without recessions.
 - Official recession announcements are typically made well after a recession has begun; today, most economists believe the U.S. will slip into or has already entered a recession.

Distress Breeds Opportunity

- ▶ Every bear market is different, and the beginning of a new bull market is only known with the benefit of hindsight.
- ▶ However, bear markets have inevitably given way to market rebounds.
- ▶ The 12 months following bear market troughs have always seen well above-average performance, with one-year stock returns averaging nearly 46%.

Past performance is not a guarantee of future results.

Investment decisions should be based on an individual's own goals, time horizon and risk tolerance.