KOVITZ INSIGHTS

# The 2020 Bull Market?

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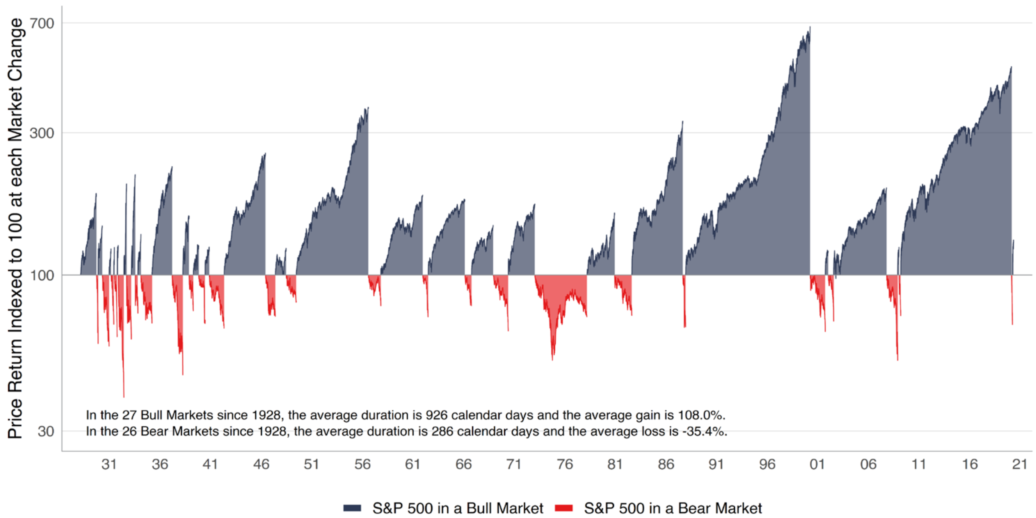
## MEASURING BULL AND BEAR MARKETS

While the average stock in the S&P 500 index is still showing a year-to-date total return of negative 14.9%, it can be hard to believe that the broad market index remains firmly planted in Bull Market territory. Indeed, from this year's low on March 23, 2020 through the high point on April 29, the S&P gained 31.4% on a price return basis. That brings up a fair question: how can it be that the world is in the midst of great uncertainty, but the S&P is in a Bull Market?




From 01.31.28 through 04.29.20. Logarithmic scale. S&P 500 index performance is the price return. We defined a Bear Market as an instance when stocks dropped 20% or more without a recovery of equal magnitude, and a Bull Market as an instance when stocks appreciated 20% or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg Finance L.P.

The most common way to measure a Bull Market is to define it as a period where the index gains a specified percentage or more without a decline of equal or greater magnitude. Thus, a 20% gain from the S&P 500's bottom would trigger a Bull Market, and it would take a 20% drop from the subsequent high point to trigger a new Bear Market. It's worth noting that a 20% loss and a 20% gain do not get an investor back to the starting point, and it's very possible that there are multiple Bull and Bear Markets embedded in the time it takes to get back to breakeven.

We use a daily price return series for our calculations, because it offers a clear view of the equity markets considering that it is possible to trade portfolios second-by-second, rather than month-end-by-month-end. Believe it or not, were we to use month-end data, the 33.9% drop in Q1 wouldn't even register as Bear Market. From January 31 to February 28, the S&P 500 was down just 8%, and through March 31, the index was down 19.9%, just short of the mark.

The Bear Market, from February 19 through March 23 caused panic, especially given the speed of the decline, which was among the fastest in recorded history. Since 1928, Bear Markets are hardly infrequent or unusual. Indeed, this year's drop registered about one percent better than average for historical Bear Markets. And Bear Markets over the last nine-plus decades have occurred an average of once every 3.5 years, which given that the last Bear Market ended in March 2009, it could be argued that the S&P was long overdue. Some may argue that the S&P did encounter intraday Bear Markets in 2011 and 2018, but we have excluded those because the losses were not sustained until the end of the trading day.

In the table following we added other gain and loss thresholds between 2.5% and 20%, to show that market volatility is very much the norm.

## Advancing and Declining Markets

From 02.20.1928 through 04.29.2020. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as an instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. Source: Kovitz using data from Bloomberg.

| Advancing (Bull) Markets | | | | | | |
|---|---|---|---|---|---|---|
| Minimum Rise % | Average Gain | Average # Days | Count | Frequency (in Years) | Last Start | Last End |
| 20.0% | 108.0% | 926 | 27 | 3.4 | 03/23/2020 | 04/29/2020 |
| 17.5% | 73.9% | 652 | 39 | 2.4 | 03/23/2020 | 04/29/2020 |
| 15.0% | 66.2% | 564 | 45 | 2.0 | 03/23/2020 | 04/29/2020 |
| 12.5% | 43.9% | 332 | 72 | 1.3 | 03/23/2020 | 04/29/2020 |
| 10.0% | 34.6% | 243 | 98 | 0.9 | 03/23/2020 | 04/29/2020 |
| 7.5% | 23.5% | 147 | 156 | 0.6 | 03/23/2020 | 04/29/2020 |
| 5.0% | 14.7% | 72 | 306 | 0.3 | 04/01/2020 | 04/29/2020 |
| 2.5% | 7.8% | 26 | 777 | 0.1 | 04/21/2020 | 04/29/2020 |

| Declining (Bear) Markets | | | | | | |
|---|---|---|---|---|---|---|
| Minimum Decline% | Average Loss | Average # Days | Count | Frequency (in Years) | Last Start | Last End |
| -20.0% | -35.4% | 286 | 26 | 3.5 | 02/19/2020 | 03/23/2020 |
| -17.5% | -30.4% | 217 | 38 | 2.4 | 02/19/2020 | 03/23/2020 |
| -15.0% | -28.4% | 189 | 44 | 2.1 | 02/19/2020 | 03/23/2020 |
| -12.5% | -22.8% | 138 | 71 | 1.3 | 02/19/2020 | 03/23/2020 |
| -10.0% | -19.6% | 102 | 97 | 1.0 | 02/19/2020 | 03/23/2020 |
| -7.5% | -15.5% | 65 | 155 | 0.6 | 03/13/2020 | 03/23/2020 |
| -5.0% | -10.9% | 36 | 305 | 0.3 | 03/26/2020 | 04/01/2020 |
| -2.5% | -6.5% | 16 | 777 | 0.1 | 04/17/2020 | 04/21/2020 |

## OPPORTUNITY KNOCKS

We have been dealt many reminders this year by the equity markets that the only problem with market timing is getting the timing right. And we believe that equity prices, given that the markets are always discounting the future, will turn up long before any tangible evidence of recovery fully emerges. Therefore, we have been using the relatively violent ups and downs to improve our broadly diversified portfolios and are scrutinizing our companies to ensure that they can make it across the chasm, so to speak. We have to expect volatility to remain high, but we very much believe that, as Warren Buffett states, "Uncertainty is the friend of the buyer of long-term values!"

We believe that as painful as a Bear Market might feel, the risk of missing out on the subsequent Bull Market is substantially more detrimental to a broadly diversified portfolio. As always, at Kovitz we partner with our clients to help guide them through uncertain times to stay the course. We recognize that investing may be challenging, stressful and frustrating, when it should be rewarding. We bring decades of experience in a variety of market environments and are always Guided by Value.

For more information on working with our financial professionals email wealth@kovitz.com or 312.334.7300.