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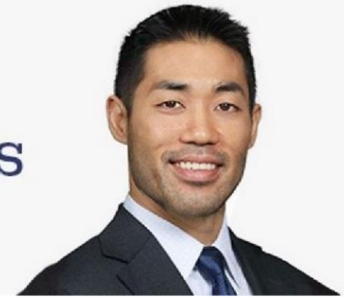
RBA Quick Insights



March 18th, 2020

Don’t panic. Be patient.

The last Quick Insight recommended that investors prepare for ongoing volatility, which could come with lower lows for the major stock indices. The fundamentals are typically the ultimate determinant for when the market troughs, but as fundamentals have yet to even seriously deteriorate, improvement seems distant. While the global economy has clearly screeched to a halt, we have yet to experience the extent of the second- and third-order effects of the coronavirus on the economy, which are the subsequent worsening of job losses, investment, defaults and confidence.

But do not panic. One of the worst detriments to long-term wealth accumulation is panic selling. Investors typically panic buy at market tops for fear of missing out, and they panic sell at bottoms because they fear they will lose all their wealth. Neither are prudent strategies. It is worth remembering that someone who invested right at the 2007 market peak and experienced the worst bear market in the post-World War II era, would have recouped their investment in less than five years if they had stayed invested and continually reinvested their dividends.

Be patient. Everybody is always itching to get into the market at the bottom. Very few actually ever do. As noted previously, investors are typically met with numerous head fakes throughout bear markets. But many insist on buying early so that they “can be there at the bottom.” Yet history suggests that it’s better to be late than early. The table below shows the returns for the full 18-month period encompassing the six months before and the 12-months after the market bottom. We compare the hypothetical returns of an investor who owns 100% stocks for the entire period (“6 months early”) with one who holds 100% cash until six months after the market bottom (“6 months late”). In general, it has been better to be late than early. Not only do returns tend to be greater when you invest “late,” but more importantly, you’ve never had negative returns in this strategy. When investing “too early,” the magnitude of the drawdowns at the bottom often more than offsets the initial rally off the bottom (nearly a third of the time).

Total returns for the six months before and 12 months following a bear market trough

	1932*	1942*	1949*	1957*	1962*	1966*	1970*	1974*	1982*	1987	1990	2002	2009	Average	Median	% of instances with positive returns
6 months early	34%	34%	36%	19%	2%	14%	14%	-4%	46%	-3%	17%	-5%	-3%	16%	14%	69%
6 months late	59%	27%	11%	24%	15%	14%	17%	11%	29%	13%	11%	23%	12%	20%	15%	100%

Source: Richard Bernstein Advisors LLC, Bloomberg, S&P, ICE BofA

*based monthly trough dates prior to 1987, determined by the lowest month-end S&P 500® level adjacent to the month of the bear market date.

Note: “6 months early” assumes S&P 500® returns for the full 18-month period. “6 months late” scenario assumes 3-month Treasury Bill returns as a proxy for returns on cash for the 12 months and then S&P 500® returns for the final 6 months. Treasury Bill returns prior to 1982 are based on Ibbotson data.

Dan Suzuki, CFA
Deputy Chief Investment Officer

Please feel free to contact your regional portfolio specialist with any questions:
Phone: 212 692 4088
Email: sales@rbadvisors.com

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