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## **As Ed McMahon Might Ask, How Bad Is It?**

We will start off by admitting that we have no idea where the stock market is headed next week, next month, or next year. It is clear, though, that the recent stock market decline has dented the retirement plans of investors, not to mention their psyches. We thought it might be a useful late-summer exercise to add some perspective with a little history.

***The good news –  
we can all put a check by the item  
“live through a real bear market”  
on our lifetime to do list.***

In two and a half years, we have given back more than half the stock market advance from 1982 to early 2000, the longest bull market in U.S. history. Between their peaks in March 2000 and their lows last month, the Standard & Poor’s 500 index and the Nasdaq Composite declined 48 and 76 percent, respectively. We do not have sufficient data from the Dutch Tulip Mania of the 1630’s or England’s South Sea Bubble of 1720 to make reasonable comparisons, but we can see how our current bear market stacks up against more recent history.

The charts from Ned Davis Research, Inc. on the opposite page compare our “modern” problems with three periods that include some of the worst stock market declines of the past century: the U.S. stock market from 1971 to 1975, the U.S. stock market from 1928 to 1932 and the Japanese market from 1985 to 1994. The recent fall in the S&P 500 has roughly equaled the worst post-World War II decline in the United States stock market in 1973-74. The implosion of the Nasdaq Composite has, percentage terms, approached the decline in the Dow Jones Industrial Index entering the Great Depression. The drop in the Nasdaq Composite has also exceeded the decline in Japan’s Nikkei 225 index when the Japanese bubble first collapsed.

Just because our recent decline approximates the damage of notable past bear markets does not necessarily mean clear skies are ahead. Late 1974 was a great time to buy U.S. stocks, but it was not until eight years later that the long bull market began in earnest. We still have not reached the magnitude of decline investors suffered in the bear market starting in 1929, and the 1929 peak was not attained again until *25 years* later. Japan’s Nikkei index is *still* below the lows in the early 1990’s shown on the chart. At the very least, however, we have shown we can take a punch of historic proportions – something investors should think about before deciding now to alter a reasonable, rationally designed investment plan. The key is to have a reasonable, rational plan in the first place. If you would like help reviewing your portfolio in light of recent events, contact us.

