

March Madness: Too Early To Cheer a Comeback?

Just as success at the foul line can transform a trailing team into a winner, many market observers wondered whether March's gain of 8.5% in the S&P 500 marked the beginning of a comeback for the 18-month-old bear market. On the heels of monthly declines in January and February 2009, the March advance was not enough to lift the S&P 500 from a loss of 11.6% for the first quarter of 2009.¹ Yet history shows that bear markets historically have experienced significant ups and downs, testing the mettle of investors before the stock market eventually turned upward.

Since 1946, 16 of the 20 trading days with the biggest gains occurred during a bear market.

Volatility During a Bear

- A look at trading days dating back to 1946 shows just how volatile bear markets can be. As measured by the S&P 500, 14 of the 20 trading days with the steepest declines occurred during bear markets.
- But the news isn't all bad. Sixteen of the 20 trading days with the biggest gains also occurred during bear markets.
- Significant gains frequently come on the heels of a substantial decline. For example, the stock market's worst day since 1946 was the 20.4% decline of October 19, 1987. But on the two subsequent trading days, the stock market surged: 5.3% on October 20, 1987, and 9.1% on the following day.
- The bear market of 2008 and 2009 has presented investors with an unusual degree of volatility. Market moves of 3% or more occurred 60 times during 2008 and 18 times during the first quarter of 2009, compared with an average of six times per year between 1926 and 2007.

Top Ten Single-Day Market Gains Since 1946¹

Percentage Gain	Date	Bull/Bear Market
11.58%	October 13, 2008	Bear Market
10.79%	October 28, 2008	Bear Market
9.10%	October 21, 1987	Bear Market
7.08%	March 23, 2009	Bear Market
6.92%	November 13, 2008	Bear Market
6.47%	November 24, 2008	Bear Market
6.37%	March 10, 2009	Bear Market
6.32%	November 21, 2008	Bear Market
5.73%	July 24, 2002	Bear Market
5.41%	July 29, 2002	Bear Market

¹Source: Standard & Poor's. Based on the closing price of the S&P 500 for the period beginning January 1, 1946, and ending March 31, 2009.

Tempering Caution With Opportunism

Despite recent signs of a market bottom, investors need to remain cautious, as bear markets historically have exhibited considerable volatility before giving way to a bull. What's more, the current recession is among the deepest on record, and it may take considerable time before the economy emerges on more solid footing. Tempering caution with opportunism by capitalizing on selective buying opportunities may help you position your portfolio for an eventual recovery.

Consider the following strategies:

- **Be aware of the costs of staying out of the market.** Whereas for the past 18 months the biggest risk has been exposure to the downside, the risk may be shifting to the chance of missing out on the upside. According to Standard & Poor's, since 1950, stocks have returned an average of 33.6% during the first 12 months following a market trough. An investor who missed the first six months of the recovery would have limited the gain to 11.6%.² Investors who have maintained significant holdings in cash may want to consider moving some of this allocation to equities, consistent with their risk tolerance and time horizon.
- **Be selective in buying opportunities.** Consider buying in sectors that are undervalued or that historically have been best positioned in the early stages of an economic recovery. For example, Information Technology and Consumer Discretionary may be among the first to recover when the economy emerges from a recession.
- **Consider dividend-paying stocks for income.** Although some struggling companies have recently cut their dividends, overall dividend yields have improved as prices have come down. Average yields of dividend payers within the S&P 500 now top 3.7% and compare favorably with many bond yields.³ Dividend-paying stocks offer the additional attraction of upside potential when markets turn around, adding a potential growth element to an income-oriented portfolio. For a diversified offering of dividend-paying stocks, consider equity-income mutual funds.

²Source: Standard & Poor's. For bear markets occurring between January 1, 1950, and March 31, 2009.

³Source: Standard & Poor's. As of March 31, 2009.