



Has the Stock Market Gotten Ahead of Itself?

In one of the most robust bull market rebounds in history, the U.S. stock market has rallied a remarkable 64% since early March. The speed and magnitude of this snapback has no doubt caught many investors by surprise, and prompted the financial media and perhaps some investors to question its sustainability.

The Question of Froth: Too Much, Too Soon?

Taking a look back at bear market recoveries since the 1920s, the current bull market (since March 9, 2009) stands as one of the most vibrant ever (see Exhibit, right). This year's 64% bull market return for the S&P 500® Index has been more robust than the 46% average (34% median) rally following a bear market, and even greater than the typical rebound during the first two years of a bull market recovery (57%). On the basis of that analysis alone, one might think there is merit to the notion that the stock market's 2009 rally is a bit overdone.

Evaluating the Entire Bear-Bull Cycle

Taking a step further, let's consider how the complete bear-bull cycle of 2007-2009 stacks up versus history. Throughout the current bear-bull cycle to date, the S&P 500 Index is still 29% below its level prior to the onset of the bear market in the fall of 2007, which is significantly lower than the -14% average (-8% median) return of all prior bear-bull cycles (through first year of new bull). Thus, the S&P 500

KEY TAKEAWAYS

- With the 2009 stock market rally thus far being one of the most robust ever, some investors may have grown skeptical about its sustainability.
- Historical analysis shows performance throughout the most recent bear market and the 2009 recovery has been below average relative to past bear-bull cycles, leaving room for potential upside.

Historical Stock Market Performance During and After Bear Markets

(1929-2009)					
Bear Markets	Bear Market Return	Return in First Year of New Bull Market	Return in First Two Years of New Bull Market	One-Year Roundtrip (Bear & First Yr. of New Bull)	Two-Year Roundtrip (Bear & First 2 Yrs. of New Bull)
1929-1932	-86%	169%	124%	-63%	-69%
1937-1942	-60%	54%	59%	-39%	-36%
1946-1949	-30%	42%	59%	0%	12%
1956-1957	-22%	31%	44%	3%	13%
1961-1962	-28%	33%	56%	-4%	13%
1966-1966	-22%	33%	42%	4%	10%
1968-1970	-36%	44%	60%	-8%	2%
1973-1974	-48%	38%	67%	-29%	-13%
1976-1978	-19%	13%	25%	-9%	1%
1980-1982	-27%	58%	62%	15%	18%
1987-1987	-34%	23%	57%	-18%	4%
1990-1990	-20%	29%	38%	3%	10%
2000-2002	-49%	34%	45%	-32%	-26%
2007-2009	-57%	64%*	?	-29%*	?
Average	-37%	46%	57%	-14%	-5%
Median	-30%	34%	57%	-8%	4%

*reflects March 9 to Dec. 1, 2009. **Bold** denotes bear market returns that are most similar in magnitude (-48% to -60%) to 2007-2009 bear market. Bull and bear markets defined as a 20% or more increase or decrease in the S&P 500 Index. Source: ISI, Bloomberg, FMRCo (MARE) as of 12/01/09.

so far hasn't fully recovered as much of the losses as it had in prior bull markets. Meanwhile, the one-year roundtrip (bear+ bull) value of the index today (-29%) is roughly on par with that of other severe bear markets of similar magnitude (i.e. 48-60% for 1937-'42, 1973-'74, 2000-'02).

Looking out through the second year of a new bull market, stocks on average continued to rise and recouped most of their bear market losses by the end of the second year (-5% avg., +4% median). Among severe bear markets most comparable to the recent '07-'09 bear, stocks also

continued to rise and earn back some of their losses through bull year No. 2. All told, during 12 out of 13 bear-bull cycles, stock performance moderated but continued to remain positive during the bull's second year.

Investment Implications

While the best gains during bull cycles typically occur during the first year, investors may want to keep in mind that this historical analysis also suggests that the current bear-bull cycle is roughly in line with prior ones in which stocks generally continued to advance.



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