

CANNON  
FINANCIAL INSTITUTE

# BEAR MARKET(TARIFF) SURVIVAL GUIDE

---

The playbook to get your clients through a market plunge unscathed

**From time to time, the markets can go stark-raving mad, as occurred on the upside in the 1990s, or on the downside during the 1930s and [2008–2009]. Your primary defense against being swept up in the madness of such periods is a command of the history of the financial markets and the resulting ability to say, “I’ve been here before, and I know how the story ends.”**



# Being an optimist is a superpower!

---

- That's even more true during weeks like these.
- **The NASDAQ briefly entered bear market territory-over 20% off its peak.**
- Headlines are flashing red. Portfolios are shrinking fast. Panic sets in.

Napoleon's definition of a military genius was "The man who can do the average thing when everyone else around him is losing his mind."

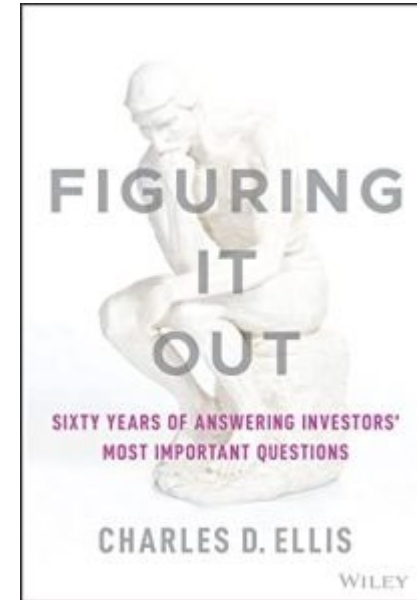
Same in investing.

- In the thick of it, keeping a cool head feels impossible.
- The best days often come right after the worst, testing our emotions.

# This Guide is Your Antidote to the Chaos.

---

- Let's break it down-with data, strategy, and a steady hand.
- Today at a glance:
  1. What is a bear market?
  2. What history tells us
  3. The psychology of downturns
  4. How to keep clients invested
  5. How to find “new” opportunities
  6. Key takeaways for investors



# 1. What is a Bear Market?

---

- A bear market is typically defined as a drop of 20% or more from recent highs in a major stock index-like the S&P 500 or Nasdaq.
- It's more than a number-it's a psychological turning point
- We've seen it before.
- Since 1945, the S&P 500 has experienced 15 bear markets:
  - ◆ Average decline: -32%
  - ◆ Time to bottom: ~ 11 months
  - ◆ Time to recover: ~ 1.7 years



# S&P 500 Long-Term Growth



## Long-Term S&P 500 Growth With Events Marked

Since 1926



Source: Ritholtz Wealth Management, data via Bloomberg Finance L.P.



# History of U.S. Bear & Bull Markets

## Daily Returns Since 1942

This chart shows daily historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets since 1942. We believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

- The average **Bull Market** period lasted 4.3 years with an average cumulative total return of 150.0%.
- The average **Bear Market** period lasted 11.1 months with an average cumulative loss of -31.7%.



### BULL

From the lowest close reached after the market has fallen 20% or more, to the next market high.



### BEAR

When the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.



Source: First Trust, Bloomberg. Daily returns from 4/28/1942 - 12/31/2024. \*No annualized return shown if duration is less than one year. **Past performance is no guarantee of future results.** These results are based on daily returns - returns using different periods would produce different results. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future.

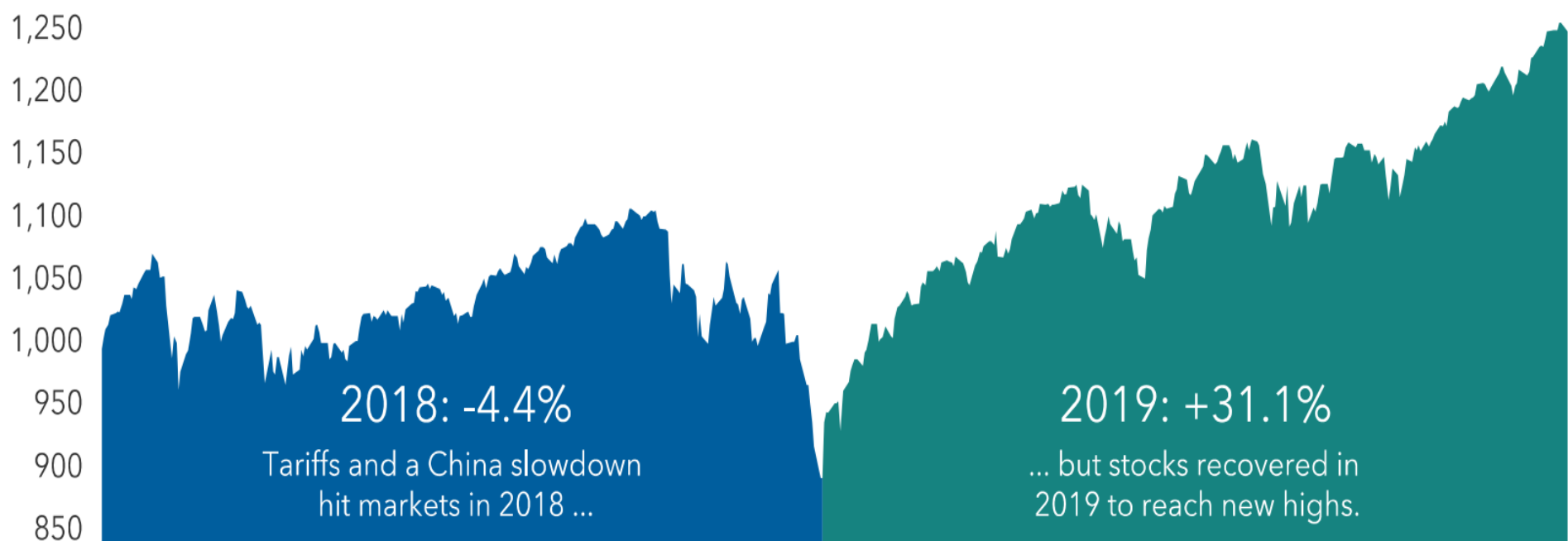
The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Not FDIC Insured | Not Bank Guaranteed | May Lose Value

First Trust Portfolios L.P. | Member SIPC | Member FINRA | 1-800-621-1675 | www.ftportfolios.com

## Markets recovered from trade uncertainty during Trump 1.0

### Value of \$1k initial investment in S&P 500 Index



Sources: Capital Group, Standard & Poor's. Value of hypothetical investment in the S&P 500 reflects the total return of the index over the period from January 1, 2018, to December 31, 2019.

# TARIFF SHOCK WIPES \$5.3 TRILLION OFF S&P 500: INDEX FALLS 10.5% IN TWO DAYS

56 Market Capitalization (Trillion US\$)



Source: S&P Global

[www.econovis.net](http://www.econovis.net)

@econovisuals



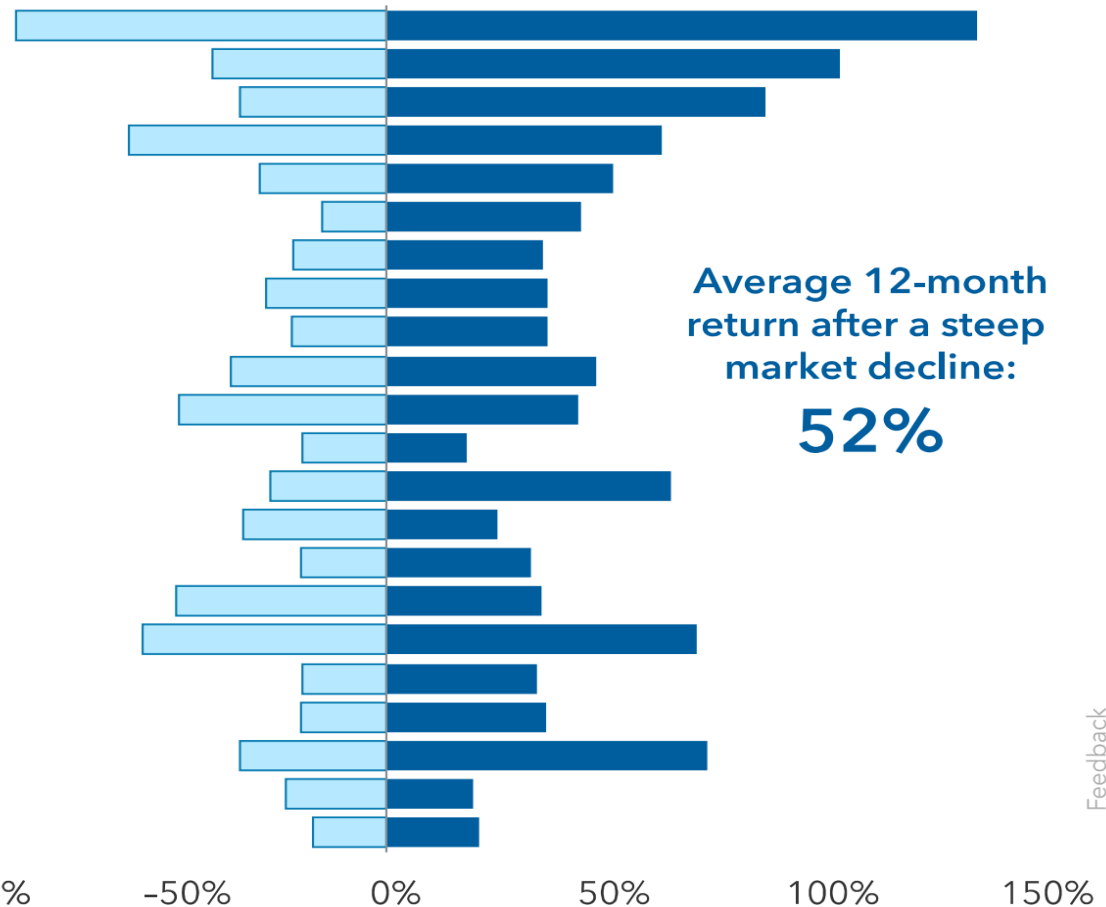
## Stock market returns have been strong after steep declines

### S&P 500 Index total returns

■ Market declines of at least 15%
 ■ Subsequent 12-month return

#### Market downturns

Sep 1929 to Jun 1932  
 Sep 1932 to Feb 1933  
 Jul 1933 to Mar 1935  
 Mar 1937 to Apr 1942  
 May 1946 to Jun 1949  
 Jan 1953 to Sep 1953  
 Aug 1956 to Oct 1957  
 Dec 1961 to Jun 1962  
 Feb 1966 to Oct 1966  
 Nov 1968 to May 1970  
 Jan 1973 to Oct 1974  
 Sep 1976 to Mar 1978  
 Nov 1980 to Aug 1982  
 Aug 1987 to Dec 1987  
 Jul 1990 to Oct 1990  
 Mar 2000 to Oct 2002  
 Oct 2007 to Mar 2009  
 Apr 2011 to Oct 2011  
 Sep 2018 to Dec 2018  
 Feb 2020 to Mar 2020  
 Jan 2022 to Jun 2022  
 Aug 2022 to Oct 2022

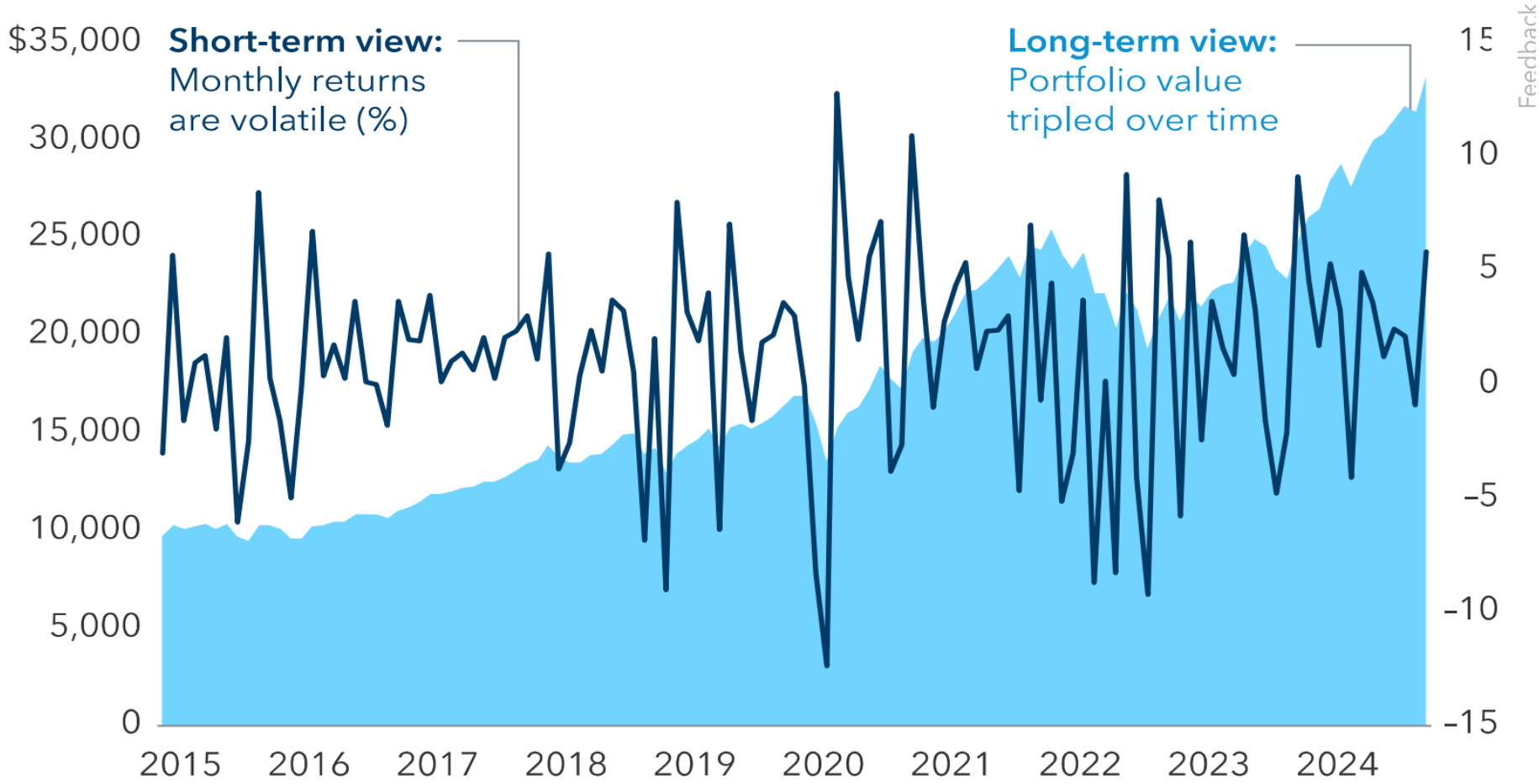


Feedback

Sources: Capital Group, Standard & Poor's. Each market decline reflects a decline of at least 15% in the value of the S&P 500 Index, without dividends reinvested. Results over the various time periods are from September 7, 1929, through October 12, 2022.

# Two views of the same investment tell a very different story

## Change in value of initial \$10k investment in the S&P 500 Index

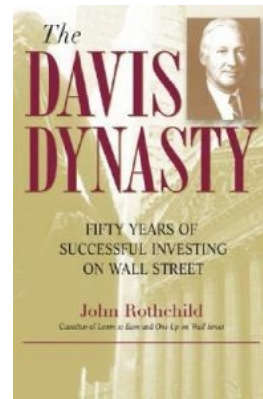


Source: Standard & Poor's. Short-term view represents the S&P 500 Index and reflects monthly return percentages from December 31, 2014 through December 31, 2024. Long-term view represented by a hypothetical \$10,000 initial investment in the same index over the same time period, using one-year returns.

# These Numbers Vary-But the Pattern is Familiar.

---

- Markets fall. Investors panic. Recovery follows.
- If we are in an *average* bear market, we'll reach a bottom early next year and won't hit a new high until the end of 2026.
- Sounds daunting? Not with the right mindset. If you're a net buyer of stocks, it's your chance to scoop up great companies on sale. Shelby Cullom Davis explained:
  - ◆ *“You make most of your money in a bear market; you just don't realize it at the time.”*
- The key is understanding that bear markets are normal.
- So, the real question isn't if they'll happen again.
- It's how you'll respond when they do.



# Historical Perspective

---

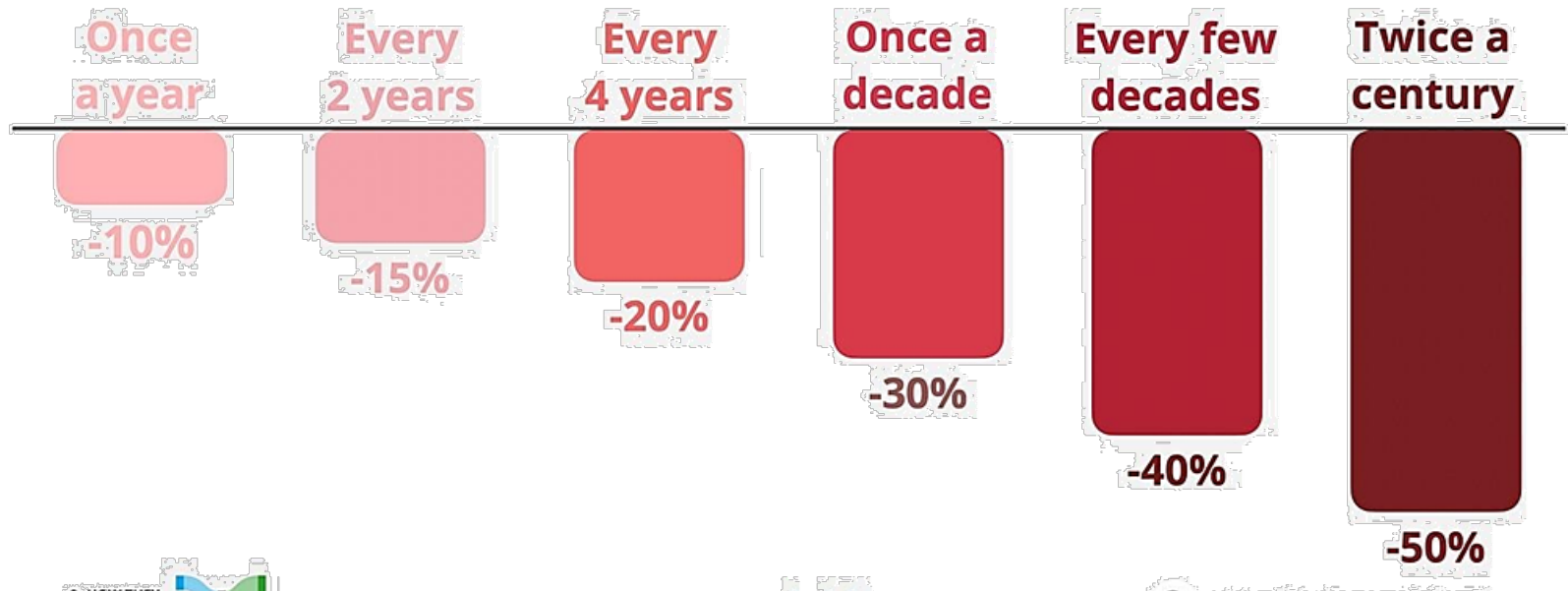
- **Since 1871 market downturns have recovered as follows:**
  - ◆ 33% of market downturns recover within a month
  - ◆ **50% of market downturns recover within 2 months**
  - ◆ 80% of market downturns recover within 1 year
  - ◆ **95% of the time, those big “once or twice in a lifetime drops” return back to even in 3 to 4 years with an appropriate portfolio, average 43.7 months**
  - ◆ Corrections: Loss of 10-20%, every 2.9 years, 13.9% Average Loss, 25 occurrences since 1944
  - ◆ **Bear Market: Loss >20%, Every 7.2 years, 32.5% Average Loss, 10 occurrences since 1944**
- **Collectively, since 1871 the time it takes for the market to recover (top to trough to top again) is a mere 7.9 months**

## 2. What history tells us

- Here is the historical frequency of drawdowns identified since 1928:

### How Often Do Markets Drop?

S&P 500 pullbacks between 1928 and 2025



## 2. What history tells us

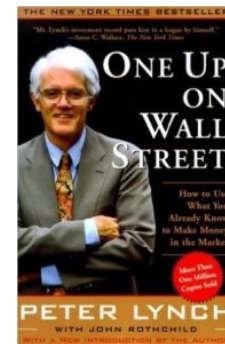
---

- Most bear markets feel endless in the moment.
- But in hindsight, they were temporary setbacks on a long upward trend.
- Yes, there have been outliers:
  - ◆ 1973-74, when inflation raged.
  - ◆ 2000, the dot-com bubble.
  - ◆ 2008, the Great Recession.
- Each took 4+ years to recover. But they were also rare.

## 2. What history tells us

---

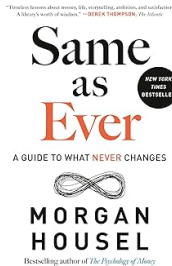
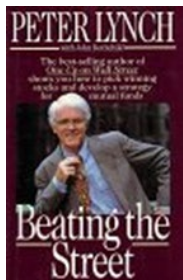
- In 12 out of the 15 bear markets since 1945, investors broke even in under 3 years.
  - ♦ More importantly, rebounds tend to begin before things feel safe.
- Peter Lynch once said:
  - ♦ *“Every economic recovery since WWII has been preceded by a stock market rally. And these rallies often start when conditions are grim.”*
- Trying to wait for perfect conditions means missing the early gains.
- That’s why staying invested—even when it’s hard—is usually the smarter move.



# One of the great ironies of investing: stocks are the only thing people hate to buy when they go on sale.

- Volatility is the price of admission for better returns.
- Morgan Housel calls it “a feature, not a bug.”
- When prices fall, there’s always something to worry about.
- Global pandemics. Recessions. Trade wars. Inflation. You name it.
- The fear of a potential recession will make headlines for the foreseeable future. Critically, perma-bears will claim that the world order has changed and stocks may never recover. The catch? They *always* say this.
- In his book *Beating the Street*, Peter Lynch explained:

- ◆ *“This one is different,” is the doomsayer’s litany, and, in fact, every recession cause is different, but not the pattern and that doesn’t mean it’s going to ruin us.”*



# One of the great ironies of investing: stocks are the only thing people hate to buy when they go on sale.

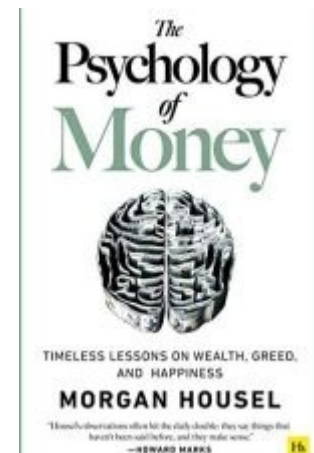
---

- On average:
  - ◆ Recessions last 11 months.
  - ◆ Expansions last nearly 6 years.
- The takeaway? Why spend all your time preparing for recessions-when they're brief, unpredictable, and often already priced in?
- Even with perfect knowledge of the economy, you wouldn't be able to consistently time your trades. The market tends to rebound long before the economic news improves.
- Despite knowing this, investors still try to outsmart the cycle.
- But as history shows, market timing is a weapon of alpha-destruction.
- The better strategy? Stay in the game. Let time and patience do the heavy lifting.

# One of the great ironies of investing: stocks are the only thing people hate to buy when they go on sale.

---

- And yet ... the S&P 500 has returned ~ 10% annually, including dividends, for nearly a century.
- That's the hard part of long-term investing.
- You must stay optimistic in a world that constantly tells you not to be.
- Bottom line: Bear markets are part of the cycle-and history shows that patient investors are often rewarded.



### 3. The Psychology of Downturns

---

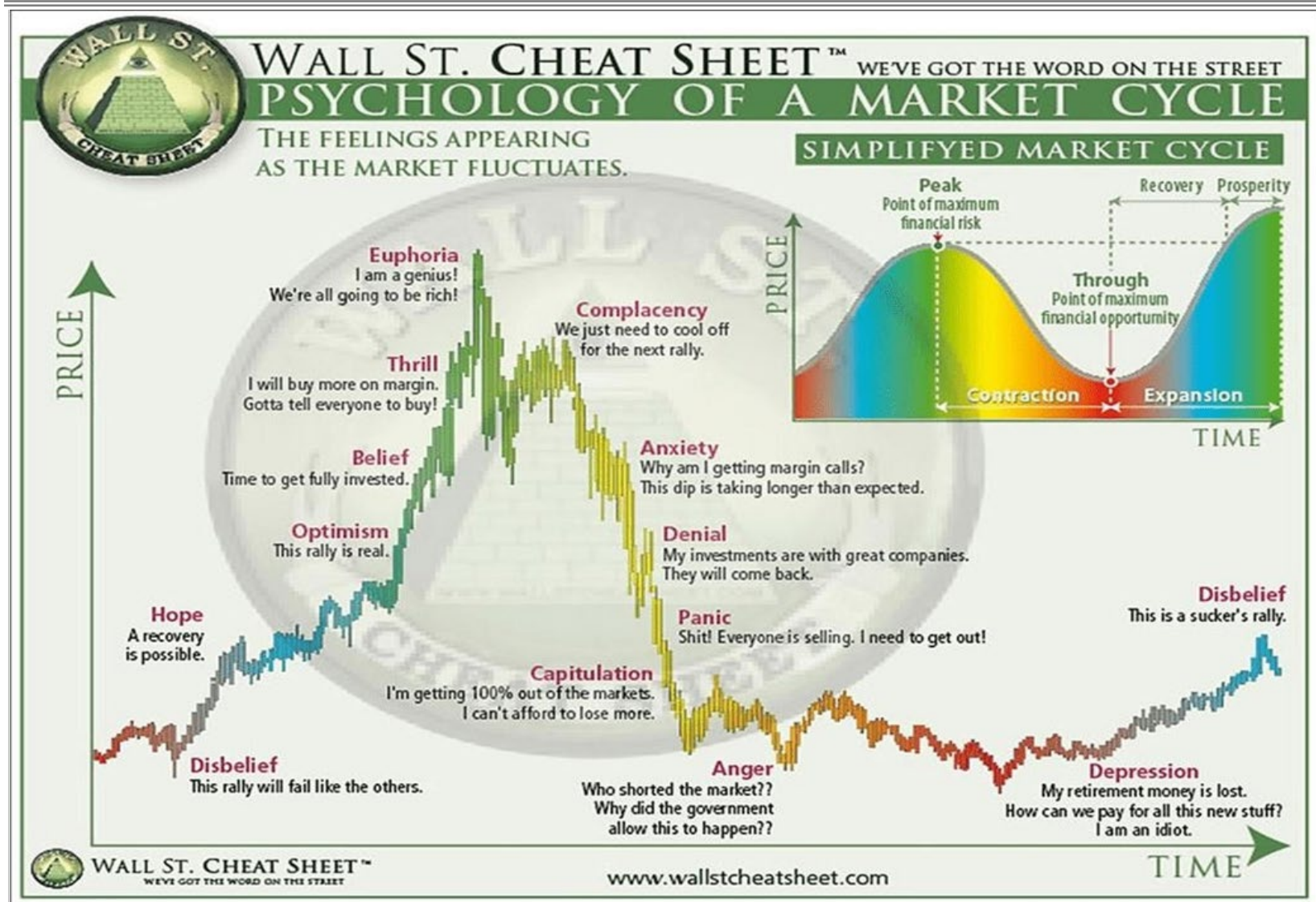
- It's not the math-it's the mind games.
- Markets fall all the time. But a bear market? That's when it feels personal.
  - ◆ Your portfolio shrinks.
  - ◆ The headlines get darker.
  - ◆ Every bounce feels fleeting.
- You don't know how bad it'll get. Or how long it'll last.
- The real pain isn't the drop-it's the uncertainty.

# 3. The Psychology of Downturns

---

- Here's why:
  - ◆ We extrapolate. A 20% drop feels like it's heading to 50%.
  - ◆ We feel the need to act-even if doing nothing is smarter.
  - ◆ Our brains crave patterns-but markets rarely tell a clear story.
  - ◆ We confuse volatility with a permanent loss of capital.
- This is when good investors make bad decisions:
  - ◆ Selling too soon.
  - ◆ Freezing and hoarding cash.
  - ◆ Chasing safety after the market already plunged.

# 3. The Psychology of Downturns



### 3. The Psychology of Downturns

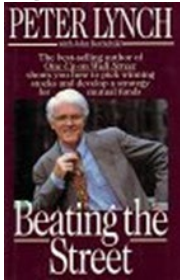
---

- Most underperformance doesn't come from picking the wrong stocks.
- It comes from reacting poorly when fear takes over.
- When the emotional fog rolls in, your best defense isn't timing the market.
- It's having a plan-and sticking to it.

## 4. How to Stay Invested

---

- When prices fall, discipline-not prediction-is your superpower.
- You don't need to time the bottom.
- You need a system you can stick to in the worst moments.
- Here comes the obligatory Lynch quote:
  - ♦ *“The most important organ in investing is not the brain, it's the stomach.”*
- Find your system
  - ♦ Volatility isn't a reason to abandon ship. It's a reason to lean into a process that removes guesswork.
    - **Journaling and documenting** can help you spot patterns in your behavior and past investments-and prevent knee-jerk reactions.
    - Automating your strategy gives you a playbook when emotions run high. For example, you can define when you can buy and sell.
- In short, asking, “What did I plan to do in this situation?” is often more effective than reacting in the moment.



# In a Meltdown, Discipline Beats Brilliance.

---

- Over the years, I've found that having a simple rule-based system helps me stay grounded.
- Here are the 4 rules I follow to protect my client's portfolio:
  - ◆ I invest any cash accumulations monthly - rain or shine.
  - ◆ I don't add to losers - keeping them relatively small.
  - ◆ I don't sell winners - staying the course and being patient.
  - ◆ I invest for at least 5 years - to give compounding time to work.
- Each month, I review fundamentals and valuations to decide what to buy-but when and how much is already pre-set. I also follow a strict maximum amount (%) I'm allowed to add to a single investment.

## 4. How to Stay Invested

---

- Why this works for me:
  - ◆ It caps how much a client can put into any single stock.
  - ◆ It forces clients to invest even when panic is in the air.
  - ◆ It spreads out their risk over time, avoiding the “all-in” trap.
  - ◆ Most importantly-it keeps them invested through thick and thin.
- It’s not the only way to invest. But it’s a system that works for me-and one you can adapt to make your own. And having a personal playbook like this can be the difference between reaction and resilience.
- A structured approach can help avoid emotional overreaction. It doesn’t matter what exact number you use. What matters is to define a plan and stick to it. In investing, consistency wins the game.

# Write Before You Act

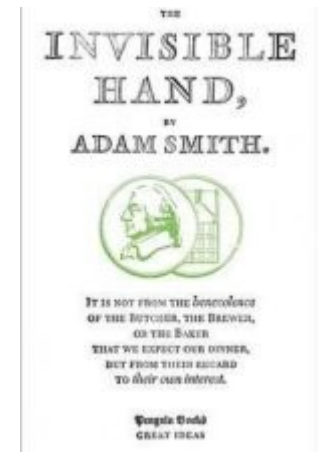
---

- Before, making any changes to your portfolio, write it down.
  - ◆ Why do you invest?
  - ◆ What is your time horizon?
  - ◆ What is your investment philosophy?
  - ◆ Why are you bullish about this investment?
  - ◆ Is there something that would break your thesis?
- Success comes with homework and preparation. These are not questions you want to answer after the fact.

# Write Before You Act

---

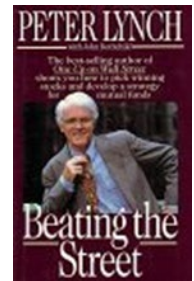
- Adam Smith puts it perfectly in *The Money Game*:
  - ♦ *“If you don’t know who you are, the stock market is an expensive place to find out.”*
- Keeping a simple investment journal (even using a simple note app) can help you recognize patterns, curb impulsive trades, and stick to your principles.



# Sleep on It

---

- Feel like you must act after a red day? Pause.
- If your decision can't wait 24 hours, it's probably driven by fear or greed-not fundamentals. To quote Lynch one more time:
  - ◆ *“The trick is not to trust your gut feelings, but to discipline yourself to ignore them.”*



## 5. How to Find Opportunities

---

- Every bear market plants the seeds of the next bull run.
- The question is-will you be ready?
- This is when great businesses go on sale. Emotions rise. Prices drop.
- And that's when long-term investors quietly do their best work.
  - ◆ **Start with quality.** Focus on companies with strong fundamentals-healthy unit economics, expanding free cash flow, and durable moats. These are the businesses that can thrive, not just survive.
  - ◆ **Don't rush in.** Deploying capital gradually-especially during volatile stretches-can help you avoid catching a falling knife. You can invest more as markets fall further, not all at once. Use the regret-minimization framework.

## 5. How to Find Opportunities

---

- ◆ **Revisit your watchlist.** The stocks you wished you owned at lower prices? They're back. Look for businesses that are still executing, gaining share, or investing through the downturn.
- ◆ **Focus on long-term payoff.** Channel the power law (or 80/20 rule): Aim for the rare few companies that could outperform everything else in your portfolio combined. All stocks are cheap in a bear market, so it's a great time to invest in companies that tend to be overpriced in a bull market.
- ◆ **Build your positions slowly.** Bear markets often come in waves. That means you'll likely have more than one good entry point. Create a rule-based approach (e.g., fixed monthly investing or valuation triggers) to stay consistent.
- Bear markets test your conviction-but they also reward your preparation.
- If you know what you're looking for, this could be your moment.

## 6. Key Takeaways for Investors

---

- A bear market feels like chaos.
- But for long-term investors, it can be a gift in disguise.
- The late Charlie Munger encapsulates it all in a single sentence:
  - ◆ *“If you’re not willing to react with equanimity to a market price decline of 50% two or three times a century, you’re not fit to be a common shareholder.”*
- Survival isn’t about brilliance. It’s about behavior.

Copyrighted Material  
**CHARLIE  
MUNGER**  
THE COMPLETE INVESTOR



TREN GRIFFIN

 Columbia Business School  
Publishing Copyrighted Material

## 6. Key Takeaways for Investors

---

- Here's your survival checklist:
  - ♦ **Zoom out.** Bear markets are temporary. History shows they happen every few years-and eventually give way to recoveries. The pain is short-term. The rewards are long-term.
  - ♦ **Stay calm.** Market cycles are emotional roller coasters. But investing success comes from discipline, not reaction. You don't need perfect timing-you need staying power.
  - ♦ **Have a plan.** Whether you automate your investing, deploy cash gradually, or stick to monthly contributions, the key is to remove guesswork. Let the rules carry you in good and bad markets.
  - ♦ **Focus on resilience.** Look for businesses that can endure and adapt-with strong balance sheets, loyal customers, and long growth runways. These are the companies that come out stronger on the other side.

## 6. Key Takeaways for Investors

---

- ◆ **Buy selectively.** When valuations compress, future returns expand. Bear markets offer rare chances to build positions in high-quality names-often at decades-low prices.
  - ◆ **Be patient.** The best opportunities won't feel obvious at first. But compounding happens quietly. What matters isn't the next few months-it's the next few years.
- 
- When others panic, staying grounded is your edge.
  - **Bear markets don't break great investors-they build them.**
  - If this helped you stay calm, share it with someone who needs it today.
  - **This too shall pass.**