# Client's Corner

**FIFTY YEARS, THREE EPIC BEAR MARKETS:**

# A Study in Crisis and Resilience

**IF YOU WERE BORN ON OR BEFORE THIS DAY IN 1972, YOU HAVE** already lived through three separate episodes in which the broad equity market in the United States—as measured by the S&P 500—halved.

In the very next breath, be informed that the S&P 500 closed out 1972 at 118. As I write, in the runup to Thanksgiving, it has just closed above 4,000.

Let me say that again:

The S&P 500 has gone down by about half three times in your lifetime, and is now up about 34 times since the eve of the first of those three epic bear markets.

If you are to become a successful lifetime investor—and especially if you are to have any hope of a lastingly comfortable retirement, with an income that has historically tracked and indeed exceeded inflation—you are going to have to learn to wrap your head around this apparent contradiction.

What follows is a story about crisis—very genuine and even existential crisis—and of the resilience that has always overcome it. It is not to be taken as a prediction. Rather, it is to be experienced as a particularly vivid demonstration of President Harry Truman's dictum: **"There is nothing new in the world except the history you do not know."**

The three bear market episodes under discussion here are:

| | | |
|---|---|---|
| January 1973–October 1974 | 22 months | -48% |
| March 2000–October 2002 | 20 months | -49% |
| October 2007–March 2009 | 17 months | -57% |

I'd like now to put you in touch (or maybe just back in touch) with the dreadful events of these three terrible periods.

***1973-74:*** A grinding 16-month recession took U.S. GDP down 3.2%; inflation flared even as unemployment soared to nine percent. Thus began America's first prolonged episode of **stagflation**, which—according to the received economic wisdom of the time—should not even have been possible. Meanwhile, our country continued its agonizing descent into the great constitutional crisis of Watergate. When we strongly supported Israel in the October 1973 Yom Kippur War, OPEC embargoed the sale of its oil to the United States; in a matter of a few months, the world oil price quadrupled. The 12-month U.S. inflation rate, which had been 3.6% in January 1973, reached 8.7 by December.

***2000-02:*** The greatest stock market mania in the history of the world—the dot-com bubble—imploded. Nasdaq, where the great mass of dot-com stocks traded, went down 80%. The terrorist atrocities of September 11, 2001 shocked America as nothing had since Pearl Harbor, and plunged us into a global war against an enemy we could not see. Enron, once the seventh largest company in the country, vaporized; its accounting firm was shown to have looked the other way while Enron management engaged in a massive, systematic, multiyear fraud. Suddenly, no one could be sure if any corporate earnings numbers as reported were real. Investor confidence plunged to Depression-era levels.

***2007-09:*** The global financial system all but ceased to function, as the subprime mortgage crisis exploded in the weeks and months after the Lehman Brothers bankruptcy—the largest corporate failure in history up to that time. Financial institutions around the world found themselves holding worthless derivatives which had previously been rated AAA; many failed, as did the government-sponsored mortgage enterprises Fannie Mae and Freddie Mac. The longest (18 months) and deepest U.S. recession since the 1930s dragged GDP down 5.1%. Unemployment crested at 10%. The S&P 500 declined more than it had since the end of WWII.

Hold these three horrific episodes in your mind, if you will, as I report the progress of certain financial and economic measurements from the onset of the first of these crashes up to the present day.

We have already seen what for most people will probably be the most startling of these data:

| | | | |
|---|---|---|---|
| S&P 500 | 12/31/72: 118 | 11/23/22: 4,027 | + 34X |

But there are other measurements at least equally freighted with long-term significance. A few:

| | 1972 | 2022E | |
|---|---|---|---|
| S&P 500 Earnings | $6.17 | $215 | + 34X |
| Dividend | $3.19 | $65 | + 20X |

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And one more, which—in terms of planning for a retirement income that may need to last through years and decades of constantly rising living costs—seems particularly noteworthy:

| | | | |
|---|---|---|---|
| **Consumer Price Index (CPI)** | **12/1972: 43** | **10/2002: 298** | **+ 7X** |

Yes, after half a century of serial crisis, the value of the S&P 500 is up 34 times ***because that's how much the earnings have grown.*** Perhaps even more important to retirees (and those who hope to become retirees): **While CPI inflation is up seven times in these 50 years, *the cash dividend of the S&P 500 is up 20 times.***

Historically, equity dividends haven't just kept pace with inflation, they've beaten the heck out of it. And you may come to regard this as ***the*** critical piece of information, since it's your dividends you'll be taking to the supermarket for upwards of three decades in retirement, ***not your account values.***

(For the record, the average annual compound rate of total return of the S&P 500 from year-end 1972 until now is 10.2%. And $10,000 invested in the S&P 500 then, and left to compound—dividends reinvested and any taxes paid from another source—is right around $1,250,000.)

I can certainly empathize if this is quite a lot for you to take in. But if it is, please: carry this little essay to the financial advisor who sent it to you. And don't leave his/her office until you fully apprehend what an astonishing testimony it is to the resilience of America's economy—and of our most successful businesses.

While you're there, wish your advisor a most joyous and peaceful holiday season for me. And the same to you and yours as well!



**Sources:** Bear market peaks and troughs: Standard & Poor's, Yardeni Research. Recession data: National Bureau of Economic Research (NBER), Wikipedia. Inflation data: Bureau of Labor Statistics, inflationdata.com. S&P levels, earnings and dividends: NYU Stern School. Consensus 2022 earnings estimate: Yardeni Research. Consensus dividend estimate: Bloomberg, reported by First Trust. CAGR and $10,000 compounded: DQYDJ return calculator; the underlying data are Robert Shiller's.

***The January 2023 issue of* NMI *will be posted on the morning of Tuesday, January 3rd.***