Rather than avoid the topic of bear markets, CIO should study them closely to dispel their misconceptions and irrational fears. (UBS)

Bear markets do not need to be a threat to financial success

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When it comes to understanding market risks, there's an elephant in the room—or rather, a bear.

Bear markets, defined as a greater-than-20% decline in the S&P 500 Index, are a natural part of investing. Yet, discussing them often feels taboo, as if acknowledging them might make them more likely.

Interestingly, this superstition is mirrored in the etymology of the word “bear.”

In Proto-Indo-European—the predecessor to most modern languages—the word for "bear" was "rktos." This root survives in words like “Arctic,” but the modern English word “bear” comes from a different origin, meaning "the brown thing." Similar transformations occurred in Slavic and Baltic languages, where bears were given euphemistic names meaning "honey-eater" or "the hairy one." Some linguists hypothesize that this evolution—which occurred in virtually all modern languages—was due to a superstition that using a bear’s "true name" would summon it.

We should not repeat this superstition. Rather than avoid the topic of bear markets, we should study them closely to dispel our misconceptions and irrational fears. With this in mind, our **Bear market guidebook** report studies each bear market since 1945, using these insights to help us to hone strategies for protecting portfolios against market volatility.

Here are some key takeaways based on our analysis of historical market cycles:

- **Bear markets are rare**. On average, bear markets happen once every seven years. Since 1945, markets have spent about 31% of the time in a bear market, compared to 66% of the time spent at (or within 10% of) a new all-time high. The remaining 3% of the time, markets were experiencing a bull market correction (a 10-20% drawdown in the S&P 500).

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- **Bear markets are short-lived**. Bear market drawdowns are over within a year, on average, and it takes an average of about two more years for those losses to be recovered. By contrast, bull markets last an average of 10 years (from peak to peak), and some have persisted for decades.
- **Bear markets are painful**. On average, the S&P 500 has declined 31% during past bear markets, and it has taken three to five years for markets to fully recover from these losses.
- **Bear markets aren't dangerous unless you sell**. When you withdraw from your portfolio during a market decline, your withdrawals can lock in otherwise temporary losses, increasing the risk that the portfolio will be depleted prematurely due to sequence of returns risk. By contrast, contributing to your portfolio during a bear market can turn sequence of returns risk to your favor, and you will exit the bear market with a boost to your portfolio's growth potential.

These insights teach us that bear markets do not need to be a threat to financial success. In fact, for well-prepared investors, bear markets can be an opportunity to improve long-term returns. Although we are currently in a bull market, it's important to work with your financial advisor to make sure you're prepared for the next bear market using the strategies that we outline in our report, which you can access using the link above or by visiting **www.ubs.com/bearmarketguidebook**. It's never too early—and rarely too late—to plan.

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