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Anatomy of a Bear Market

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Anatomy of a Bear Market

Understanding how a Bear market unfolds and how to help defend against it

Deliver What Investors Expect®

Types, Frequency, and Severity of Bear Markets

S&P 500® Index Price Declines (Excluding Dividends): 1946-September 2018

Type of Decline	Percent Decline	Count	Average Change	Avg. Duration in Months
Pullbacks	5-10%	98	-6.6%	>1
Corrections	10-20%	30	-12.9%	4
All Bear Markets	20+%	13	-32.4%	14
Uncomfortable Bears	20-40%	10	-26.5%	12
Hellacious Bears	40+%	3	-52.1%	23

Source: Bloomberg, Beaumont Capital Management. Data as of 9/30/2018.

Put in Terms of Time
Assuming a 17% average annual return…

Drawdown	Months to Recover
-10%	8
-20%	17
-30%	27
-40%	39
-50%	53

Source: The "months to recover" is based on a 17% average annual return. This was selected by calculating historical average annual returns from the last 5 bull markets and rounded down to the nearest whole number. The bull market is defined as the period between the end of a drawdown of greater than 20% and the beginning of a drawdown of greater than 20%. Refer to the disclosure page for additional, important information.

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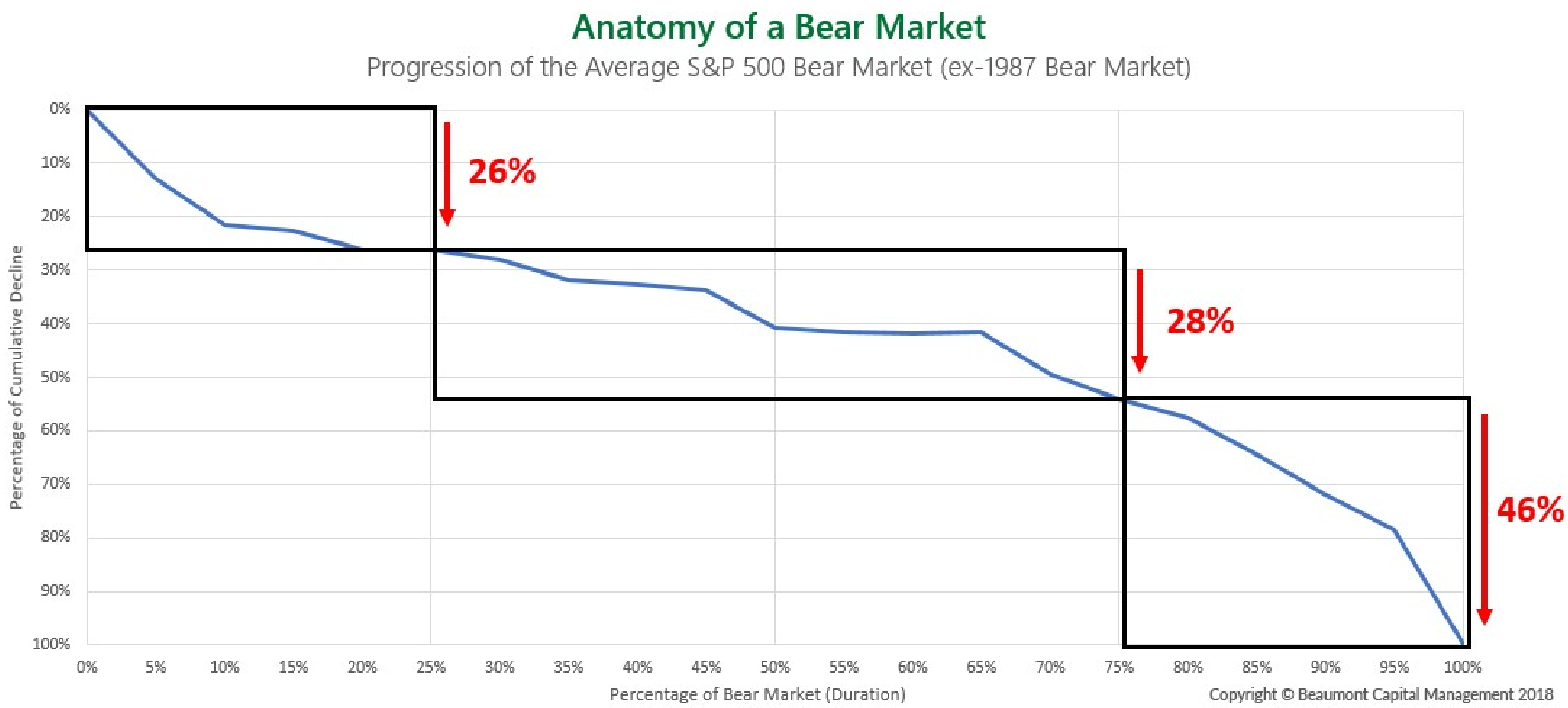
Takeaways from Analyzing Past Bear Markets

- Bear markets take time to unfold
- Most of the losses, and the fastest rate of loss, occur at the beginning and the end of a Bear market.
- Almost half of Bear market losses, **46% on average**, occur during the **final panic and capitulation stages**.
- Avoiding "freezing" as Bear market losses extend is essential.

Data based on Bear markets since WWII, excluding the 1987 Bear market.

Progression of Historical Bear Markets

- All bear markets begin with an ordinary pullback which turns into a correction
- Losses tend to accelerate and the markets cascade down in the final quarter of a bear market



Source: Bloomberg, Beaumont Capital Management (BCM). The chart shows the distribution of losses throughout the progression of the average S&P 500 bear market (with dividends reinvested) since the end of WWII, excluding the 1987 bear market.

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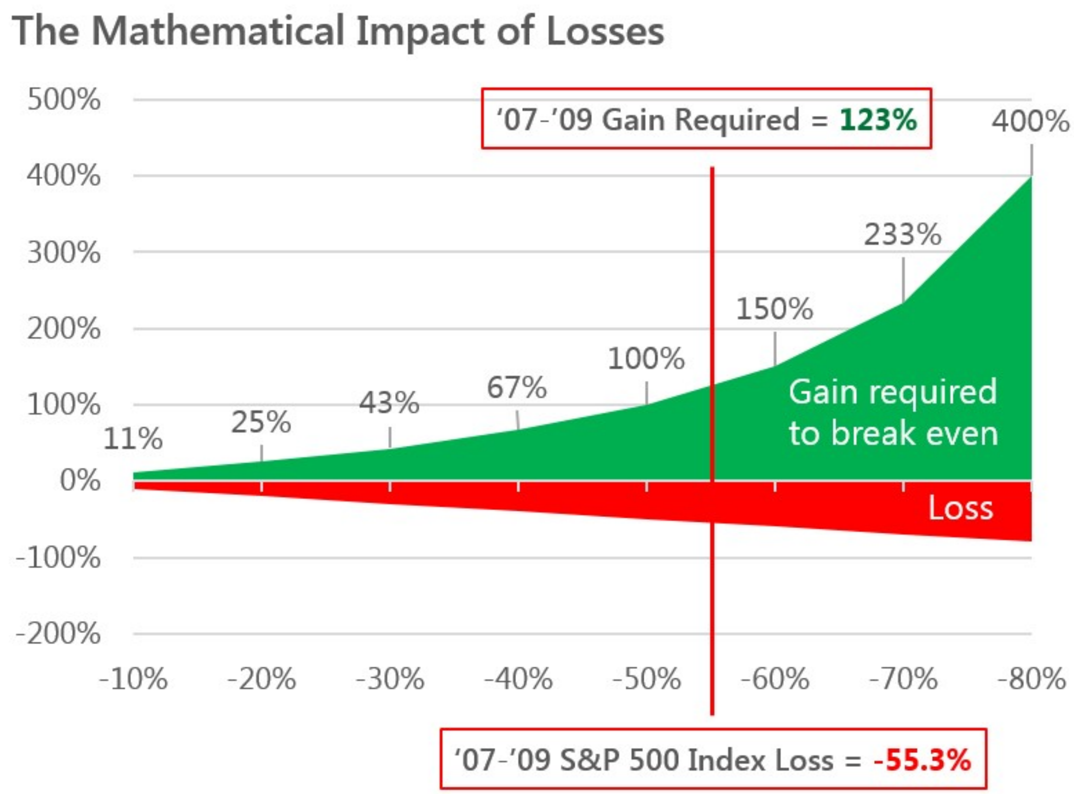
Investment Math Teaches Us to Keep Our Losses Small

- The larger a loss becomes, **the greater the gain the remaining assets need just to break even.**
- Because most investors sell at or near the bottom, it often takes years to recoup those lost assets.



Source: Bloomberg. Loss shown for S&P 500 Index is based on daily pricing and includes dividends reinvested from peak to trough for the most recent Bear market (time period 10/9/2007-3/9/2009).

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What Lessons Have we Learned?

Lesson 1: The middle half of a Bear pulls you in with a slow, gentle slope downward, eventually causing capitulation, where investors often sell at the worst possible times

Lesson 2: The first 10% or so is almost impossible to avoid, but taking action before your losses leave the teens is much easier to recover from

Lesson 3: Following a rules-based growth system that removes emotion from the investment process can help avoid large, devastating losses

Where We Are Now

No one knows if this is the next Bear or not. **But if you could go back in time to January 3rd 2008, what would you have done differently?**

Source: Bloomberg, Beaumont Capital Management (BCM). 2000-2002 Bear market dates between 3/24/2000-10/9/2002. 2007-2009 Bear market dates between 10/9/2007 and 3/9/2009.

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Key Takeaways

- There is still plenty of **time to act**
- Proper diversification includes diversification of **management style**
- If the markets "V-out" from here, our process is designed to **get back in** based on the same rules that get us out

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