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10 FACTS ABOUT BEAR MARKETS

Tsai Capital's investment approach is to compound capital over the long-term, ideally in businesses that we can own for a decade or more. We don't try to predict the market; that's a fool's game. Instead, we focus on high-quality, growth businesses that we believe offer significant upside potential and a margin of safety at the time of purchase.

However, just as a sailor on a long journey should expect to encounter rough waters from time to time, a long-term investor should expect – and be prepared – to face rough markets. It's comforting to know, however, that deep market declines, while always emotionally challenging, have been relatively short-lived. Here are 10 facts about bear markets:

1: 20% is the key number. A market decline of at least 20% from peak to trough is defined as a bear market, whereas a decline of 10%-19.9% is defined as a market correction. A new bull market emerges when the closing price gains 20% from the most recent trough.[1] Bull markets are typically born during periods of maximum pessimism.

2: Bear markets are not uncommon. Since 1928, there have been 26 bear markets in the S&P 500 Index and 27 bull markets.[2] Despite the numerous setbacks, stocks have risen significantly over time and have vastly exceeded the performance of fixed-income securities.

3: 3.6 years. Bear markets show their teeth every 3.6 years, on average. While many people consider the bull market that ended in 2020 to be the longest on record, the bull that ran from December 1987 until the dot-com crash in March 2020 is technically the longest (a decline of 19.9% in 1990 nearly ended the bull market, but just missed the bear definition of a 20% decline).

4: Bear markets are usually short-lived. The average length of a bear market is 289 days, or about 9.6 months. That's substantially shorter than the average length of a bull market, which is 991 days, or 2.7 years. While always painful to live through, Tsai Capital has historically made new investments during substantial market declines.

5: Since World War II, bear markets have been less frequent. Between 1928 and 1945, there were 12 bear markets, or one about every 1.4 years. Since 1945, there have been 14 bear markets, or about one every 5.4 years.

6: Stocks lose 36%, on average, during a bear market. By contrast, stocks gain 114%, on average, during a bull market.

7: Half of the market's strongest days in the last 20-years occurred during a bear market. Another 34% of the market's best days occurred in the first two months of a bull market – likely before it was clear that a new bull market was underway.[3] Not being invested during the market's best days would have been detrimental to an investor's long-term results. That's one reason why we don't try to time the market.

8: A bear market does not necessarily indicate a recession is coming. There have been 26 bear markets since 1929, but only 15 recessions. Bear markets often coincide with a slowing economy, but a deep market decline does not guarantee that a recession is on the horizon.

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[1] We define the market as the S&P 500 Index. The S&P 500 Index is a benchmark of unmanaged securities; it is not a security that can be purchased or sold. A market decline of at least 20% from peak to trough in any index or security is generally considered a bear market in that index or security.

[2] The origin of the S&P 500 Index dates to 1923, when Standard & Poor's introduced a series of indices that included 233 companies and covered 26 industries. The S&P 500 Index, as it is now known, was introduced in 1957.

[3] Ned Davis Research, as of 12/21. The period referenced is 12/16/01 to 12/15/21.

9: Assuming a 50-year investment horizon, you can expect to live through about 14 bear markets. Market downturns are a normal part of the investment process. And because nobody can consistently predict when down markets are going to occur, investors should always be appropriately positioned to deal with them. That's why we prefer to invest in companies that have a strong balance sheet and competitive position.

10: Bear markets can be painful, but overall, markets are positive most of the time. Over the last 92-years, bear markets made up only 20.6 of those years. Put differently, for almost a century, despite pandemics, recessions, inflation, deflation and wars, stocks have been on the rise 78% of the time. Many investors, however, consistently miss out on the market's overall gains because they try to time getting in and out, missing the big days along the way. At Tsai Capital, we focus on business fundamentals – not the market.

S&P 500 Index Declines of 20% or More, 1929-2021[4]

Start and End Date	**% Price Decline**	**Length in Days**
9/7/1929 - 11/13/1929	-44.67	67
4/10/1930 - 12/16/1930	-44.29	250
2/24/1931 - 6/2/1931	-32.86	98
6/27/1931 - 10/5/1931	-43.10	100
11/9/1931 - 6/1/1932	-61.81	205
9/7/1932 - 2/27/1933	-40.60	173
7/18/1933 - 10/21/1933	-29.75	95
2/6/1934 - 3/14/1935	-31.81	401
3/6/1937 - 3/31/1938	-54.50	390
11/9/1938 - 4/8/1939	-26.18	150
10/25/1939 - 6/10/1940	-31.95	229
11/9/1940 - 4/28/1942	-34.47	535
5/29/1946 - 5/17/1947	-28.78	353
6/15/1948 - 6/13/1949	-20.57	363
8/2/1956 - 10/22/1957	-21.63	446
12/12/1961 - 6/26/1962	-27.97	196
2/9/1966 - 10/7/1966	-22.18	240
11/29/1968 - 5/26/1970	-36.06	543
1/11/1973 - 10/3/1974	-48.20	630
11/28/1980 - 8/12/1982	-27.11	622
8/25/1987 - 12/4/1987	-33.51	101
3/24/2000 - 9/21/2001	-36.77	546
1/4/2002 - 10/9/2002	-33.75	278
10/9/2007 - 11/20/2008	-51.93	408
1/6/2009 - 3/9/2009	-27.62	62
2/19/2020 - 3/23/2020	-33.92	33
Average	**-35.62**	**289**

[4] Ned Davis Research as of 12/21. The S&P 500 Index is a benchmark of unmanaged securities; it is not a security that can be purchased or sold.

Important Disclosures

Past performance is no indication or guarantee of future performance and no representation or guarantee is being made as to the future investment performance of Tsai Capital's separately managed accounts or any entity.

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