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TSAI CAPITAL ON BEAR MARKETS: 10 FACTS YOU SHOULD KNOW

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 or economy; that's a fool's game. Instead, all of our attention is devoted to finding the highest quality growth companies that we believe offer significant upside potential and a margin of safety at the time of purchase.

Just as a sailor embarking on a lengthy voyage expects occasional turbulent seas, a long-term investor should anticipate—and prepare for—periods of market turbulence. Yet, there's reassurance in recognizing that even the steepest market downturns, though emotionally taxing, have historically proven to be fleeting. Here are 10 key insights from our research about bear markets:

1: 20% defines the bear. 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 called a market correction. A new bull market emerges when the closing price gains 20% from the most recent trough. Bull markets are typically born during periods of maximum pessimism (Yardeni Research, 2023).

2: Bear markets are not uncommon. Since 1928, there have been 27 bear markets in the S&P 500 Index and 27 bull markets. Despite the numerous setbacks, stocks have risen significantly over time and have vastly exceeded the performance of fixed-income securities (Bloomberg LP, 2023; Yardeni Research, 2023).

3: 3.5 years. Bear markets show their teeth every 3.5 years (3 years and 6 months), 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 2000 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) (Yardeni Research, 2023).

4: Bear markets are usually short-lived. The average length of a bear market is 289 days, or about 9.5 months. That's substantially shorter than the average length of a bull market, which is 1037 days, or 2.9 years. While always painful to live through, Tsai Capital has historically made new investments during substantial market declines (Ned Davis Research, 2023; Tsai Capital Estimates, 2025).

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 15 bear markets, or about one every 5.4 years (Yardeni Research, 2023).

6: Stocks lose 35%, on average, during a bear market. By contrast, stocks gain 155%, on average, during a bull market (Ned Davis Research, 2023).

7: More than 40% of the market's strongest days in the last 20-years occurred during a bear market. About 42% of the market's strongest days in the last 20 years occurred during a bear market, and roughly 40% of the top 10 single-day gains happened in the first two months of a bull market, often before it was evident a recovery had begun. 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 predict the market (Ned Davis Research, 2023; Tsai Capital Estimates, 2025).

8: A bear market does not necessarily indicate a recession is coming. There have been 27 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 (Bloomberg LP, 2023; Yardeni Research, 2023).

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 favor holding a portfolio of 20 to 25 companies that cross multiple industries, each with robust balance sheets and strong competitive positions, to avoid excessive concentration (Yardeni Research, 2023).

10: Bear markets can be painful, but overall, markets are positive most of the time. Over the last 96 years, bear markets accounted for approximately 22 of those years. In other words, stocks have remained in non-bear territory—generally rising—about 77% of the time, despite pandemics, recessions, inflation, deflation, and wars. 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 (Ned Davis Research, 2023; Tsai Capital Estimates, 2025).

S&P 500 Index Declines of 20% or More, 1929-2025

Beginning and Ending 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
1/3/2022 - 10/12/2022	-25.43	282
Average	-35.24	289

Source: Bloomberg LP, 2023; Yardeni Research, 2023

Important Disclosures

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