mendations and use reports from other brokerage firms without such a relationship.

- Read the entire report and check for disclosures about relationships, which are typically made in the footnotes.
- Try to get research reports on the same firm from several different analysts.

The bottom line for investors: *As the study's headline translates: "Buyer Beware!" Some analyst reports may provide useful insights, but further research from other sources is always warranted.*

The Bear Look

Bear Markets May Be in Hibernation, But They Shouldn't Be Forgotten, *by Brett Skakun; a study appearing in the Fourth Quarter 1996 issue of On Course, published by the Consulting Group, a division of Smith Barney, Bethesda, Md.*

As the market keeps hitting new highs with nary a bump in the road, fewer and fewer investors have actually experienced a true bear market. Indeed, the most recent drop of over 10% occurred way back in October 1990.

Bear markets are painful, but they do force investors to come to terms with stock market risk. Large and lengthy drops can cause investors to panic and make emotional decisions, possibly withdrawing at inopportune times. An understanding of bear markets can help an investor more accurately assess how much of a loss they can withstand and prevent a panic attack when the inevitable drop occurs.

So what does a bear market look like? A brief study of bear markets by Smith Barney's Consulting Group reviewed the data.

The study examined stock market drops of 10% or more since 1940. Table 1 presents the percentage decline (which does not include dividends), duration, and recovery time of these market drops. For purposes of the study, the duration of a stock market decline starts from the peak and ends at the bottom; the recovery period is the amount of time it takes for the market to go from the bottom back up to the same level as the previous peak.

The study found that the duration of these declines has ranged from one month to a little more than two years. Recovery periods ranged from one month to almost six years, but most have taken less than one year.

All major drops start as smaller declines, and the study notes that two-thirds of the 10% declines developed into bear market drops of 20%. On the other hand, less than half of the 10% declines developed into bear market declines of greater than 25%.

In addition, the study found that the S&P 500 has often jumped substantially following a market decline. Most recently, the market rose 25% in the four months following the 1990 bear market and 19% in the five months following the 1983-84 decline.

The bottom line for investors: *The timing of bear attacks remains elusive, and recoveries are often swift. You can best withstand a bear attack if you know in advance what to expect and are still around (invested in stocks) for recovery.*

Table 1.
Major Stock Market Declines Since 1940
(S&P 500 index)

Year	Depth of Drop (%)	Duration of Decline* (months)	Duration of Recovery** (months)
1990	–20	3	4
1987	–34	3	20
1983–84	–14	10	5
1981–82	–26	19	2
1973–74	–48	21	70
1968–70	–36	18	21
1966	–22	8	7
1962	–26	6	14
1959–60	–14	15	3
1956–57	–22	15	11
1955	–10	1	1
1953	–15	8	6
1950	–14	1	2
1946	–27	5	44
1940–42	–42	28	26
Average	**–25**	**11**	**16**

**From stock market peak*
***From stock market bottom to level of previous peak*