Bear Market Becomes Official

The stock market "officially" became a bear market this week, defined as a 20% decline in the S&P 500 Index. Our regular readers know that we have already been in a bear market for some time. High flying tech stocks and the Russell 2000 Index of small company stocks both peaked February 2021, sixteen months ago as of this writing. Much of the remainder of the market peaked in November 2021.

Viewed with this understanding, there is optimism that we may already be a good way through the fall. The average bear market lasts just over 300 days, and the current sell-off has been uniquely difficult because of its long duration. The S&P 500 declined for seven straight weeks beginning in March, the longest stretch of continuous losing weeks since 2001.

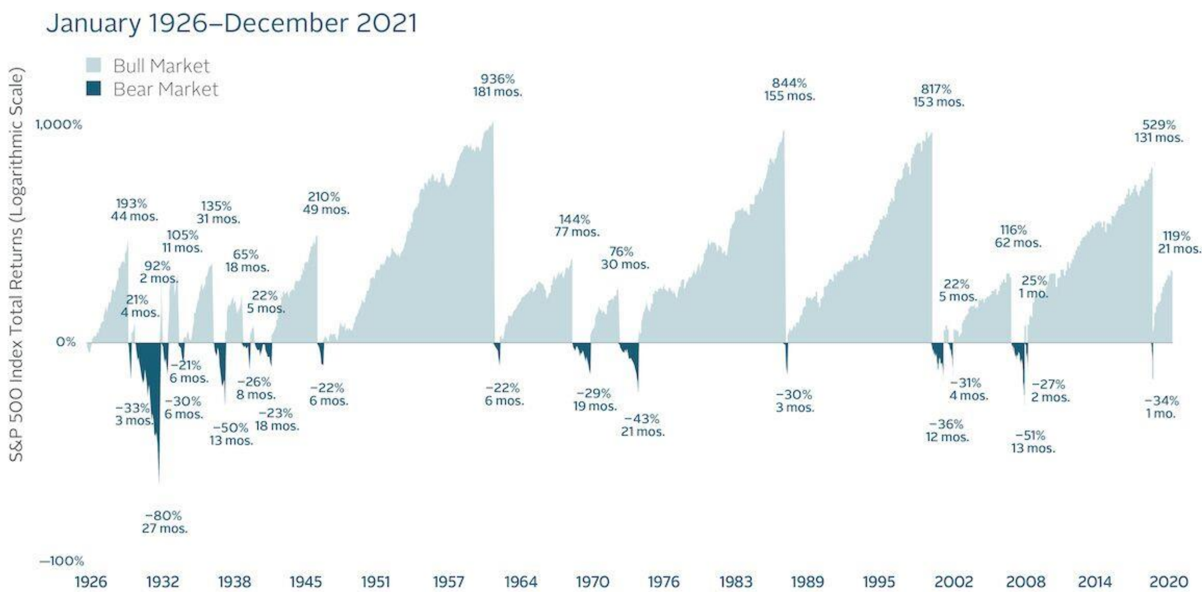
While market corrections are common – on average the market experiences a 10% decline once a year and a 20% fall once every six years – the last two market declines did not last long. The COVID-19 related bear market lasted only 33 days before bottoming and rising to new highs; and a nearly 20% correction that ended on Christmas eve in 2018 lasted only 90 days before starting a new rebound. Investors can be forgiven for recent memories that corrections are quick and painless. This time has been different.

The Fed remains committed to slowing inflation and will likely slow the economy with its actions. Interest rates were increased again this week with expectations for more.   Their goal is to combat high inflation and prevent a wage-price spiral from taking hold. Rising rates are intended to slow consumer and business spending, which should eventually have a downward impact on inflation, while also raising the risk of recession.

Much of the economic correction the Fed is seeking has already been accomplished. Mortgage rates are higher, the housing and job markets have shown signs of slowing, and investors have certainly taken losses. However, it is debatable if the Fed can manage an economic "soft landing" – the slowing of inflation without causing a recession. Currently markets are pricing in a more recessionary outcome.

Bear markets that occur outside of a recession tend to be less severe and less lengthy. Recessionary bear markets result in greater losses and a longer time before recovery. If the economy avoids a recession, then we may be closer to the end of this bear market than the beginning. If not, there could be more difficulties ahead.

Markets are unpredictable, but they are good at reminding investors that stock prices do not simply go up, uninterrupted forever. We know this is a difficult environment. We believe the best strategy is to stay the course and focus on the long term, but every day one's faith in the long-term is being tested. Remember we have been here before. We cannot know the precise timing or magnitude of bear markets, but history has taught us that the good times outweigh the bad. As seen below, the S&P 500 Index has experienced 17 bear markets since its inception, and when bull and bear markets are viewed together, it is clear equities have rewarded disciplined investors over the long term.

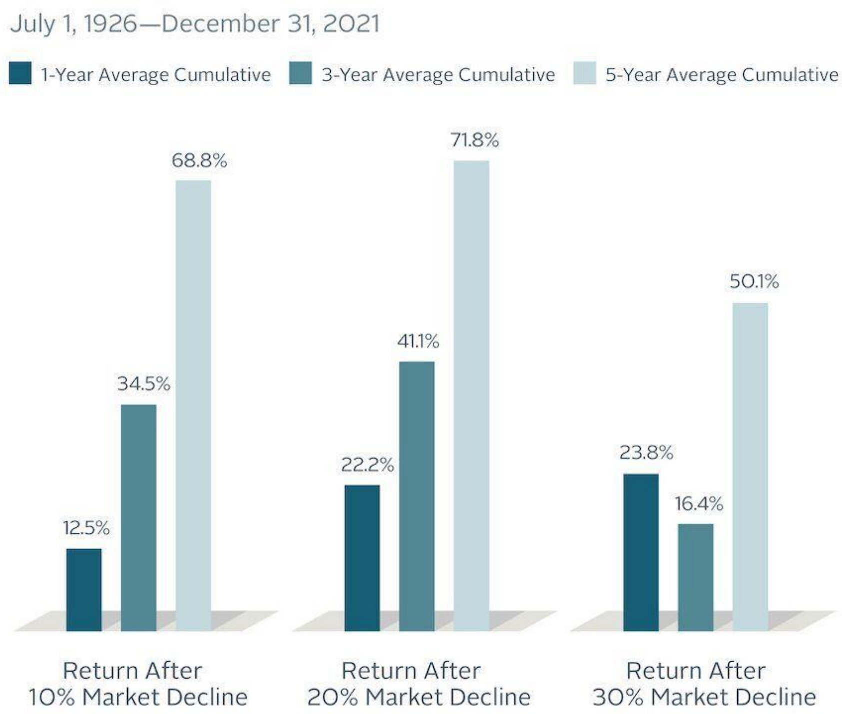


Source: Dimensional Fund Advisors

Time in the market beats timing the market

Times like these are typically when investors feel the grip of panic and want to sell everything and wait on the sidelines. However, historically this has been the worst strategy. The stock market is the only store in town that when they cut prices, customers run out the door. Warren Buffet's adage, "be greedy when others are fearful," is supported by the numbers. As seen in the table below, stocks have historically delivered strong returns following downturns.

Sticking with your plan helps put you in the best position to potentially capture the recovery. If you are looking for someone to talk to help you stay on your path, we are here for you. If you are concerned about your spending or savings plans, or if you have tax or estate complexities causing paralysis, let's talk. In the meantime, we remain committed to managing your money with the same attention and care we do our own.



FAMA/FRENCH TOTAL US MARKET RESEARCH INDEX 1926—12/31/2021: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French website

Data here is obtained from what are considered reliable sources; however, its accuracy, completeness, or reliability cannot be guaranteed.

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Mutual fund investing involves risk. Principal loss is possible. The Funds invest in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Funds invest in micro- cap companies which tend to perform poorly during times of economic stress. The Perritt MicroCap Funds may invest in early-stage companies which tend to be more volatile and somewhat more speculative than investments in more established companies.
Past Performance does not guarantee future results.

Past performance does not guarantee future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index. For fund performance please visit www.perrittmutualfunds.com.

Russell 2000 Index is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.
S&P 500 Index is a stock market index tracking the stock performance of 500 large companies listed on exchanges in the United States.

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