

# Keeping Cool, Come What May

## RECESSION FOR LESSONS LONG-TERM INVESTORS

The economy and the stock market are always in motion: moving from boom to bust and back to boom again.

When the economy is booming, it's called an expansion. When it goes bust for a while, it's called a recession. Likewise, when stocks are rallying, it's called a bull market, and when they're falling, it's called a bear market.

Of course, the worry these days is of rising prices at the gas station and the grocery store — and declining investment prices in your portfolio — but that's no reason to panic. Downturns are pretty common events in our economy.

### Measuring the Swings

In all, there have been 32 recessions since economists first began counting them in 1857. And there have been 25 bear markets since the worst one of all: the bear that followed the crash of 1929. Each and every downturn did end — and was followed by a period of growth. Recessions are getting shorter — just 10 months on average since the end of World War II versus 21 months between 1854 and 1945.\* Meanwhile, recoveries have lasted an average of 57 months. (Bull and bear markets show a similar pattern, with bears averaging 382 days in length and bulls a heftier 721.)

The lesson for investors is to recognize that the economy always goes up and down. So try not to base investment decisions on temporary occurrences.

### Q+A

Who decides when we are in a recession?

The call is made by the National Bureau of Economic Research (NBER), a private, nonprofit economic research organization in Cambridge, MA. Says the group's Business Cycle Dating Committee, **"A recession is a significant decline in economic activity, spread across the economy, lasting more than a few months."**† Several factors are considered when making the decision, including the total measure of economic activity (called Gross Domestic Product) as well as changes in consumer incomes and in the health of the job market. **The most recent officially designated recession began in March 2001 and ended in November 2001 — a total of eight months.** That made it slightly shorter than the average recession since World War II.\*

With regard to the current economy, NBER has not declared the U.S. to be in a recession. Technically, we are still in a recovery phase; the number of months has yet to be determined. When a recovery ends, a recession automatically begins and vice versa.

\*"U.S. Business Cycle Expansions & Contractions," National Bureau of Economic Research Business Cycle Dating Committee, June 2008. †Standard & Poor's 500 stock index.

### Looking at the Numbers

We've experienced 10 **recessions** and 10 **recoveries** since World War II\*

