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# How Long Until Stocks Bounce Back?

*Even the best-case scenarios will require years.*

By PETER J. TANOUS

Investors have breathed a world-wide sigh of relief in the waning weeks of March as equity markets have shown signs of upward vigor. The question now being bruited around the financial centers of the world is: Have we hit bottom?

No one really knows, but that is likely the wrong question. More important to investors than the date we hit bottom is how long the recovery will take. How long will it take for investors to recoup the losses they suffered since October 2007, when the S&P 500 index reached a record high of 1565? Here's a clue: It will take longer than you think. Let me explain.

Let's assume that we have already seen the market bottom and that it occurred on March 9, 2009, when the S&P 500 sank to 676. A return to the lofty level of 1565 reached 18 months earlier requires a stock market gain of 131%. How much time might that take? What if it took five years? I can hear the cries already: "Five years? To recoup the losses we sustained in only 18 months? That's terrible!"

We should be so lucky. You see, if we were to get back to the old high in five years, that would suggest an annual return of over 18% for that five year period. There are few periods in stock market history when the market rose 18% for five years. The last such period was in the late 1990s at the tail end of the Internet boom, which was followed by three years of consecutive stock market declines in 2000, 2001 and 2002. Given the history, a five-year recovery period, far from being terrible, is probably wishful thinking.

More realistically, what if, starting now, we began a munificent period of rising stock prices over a multiyear period of, say, 11% a year? If that happened, it would take eight years to get back to the October 2007 highs. To put all this in historical perspective, the average annual return for the S&P 500 over the past 83 years, since 1926, has been 9.7%. If the market rose at that historic rate, it would take more than nine years to get back to the October 2007 highs.

What is the lesson from these sobering statistics? The recovery in stock prices is likely to take much longer than we had hoped, and investors should taper their expectations accordingly. Raising the risk level of your investments to accelerate gains will set you up for even greater losses if your risky investments don't work out. Instead, allocate your assets wisely and be mindful of the risks in the different asset classes you choose.

The good news is that stocks will recover. It just may take longer than we expect.

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