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Market Analysis, Research & Education
A unit of Fidelity Management & Research Co.

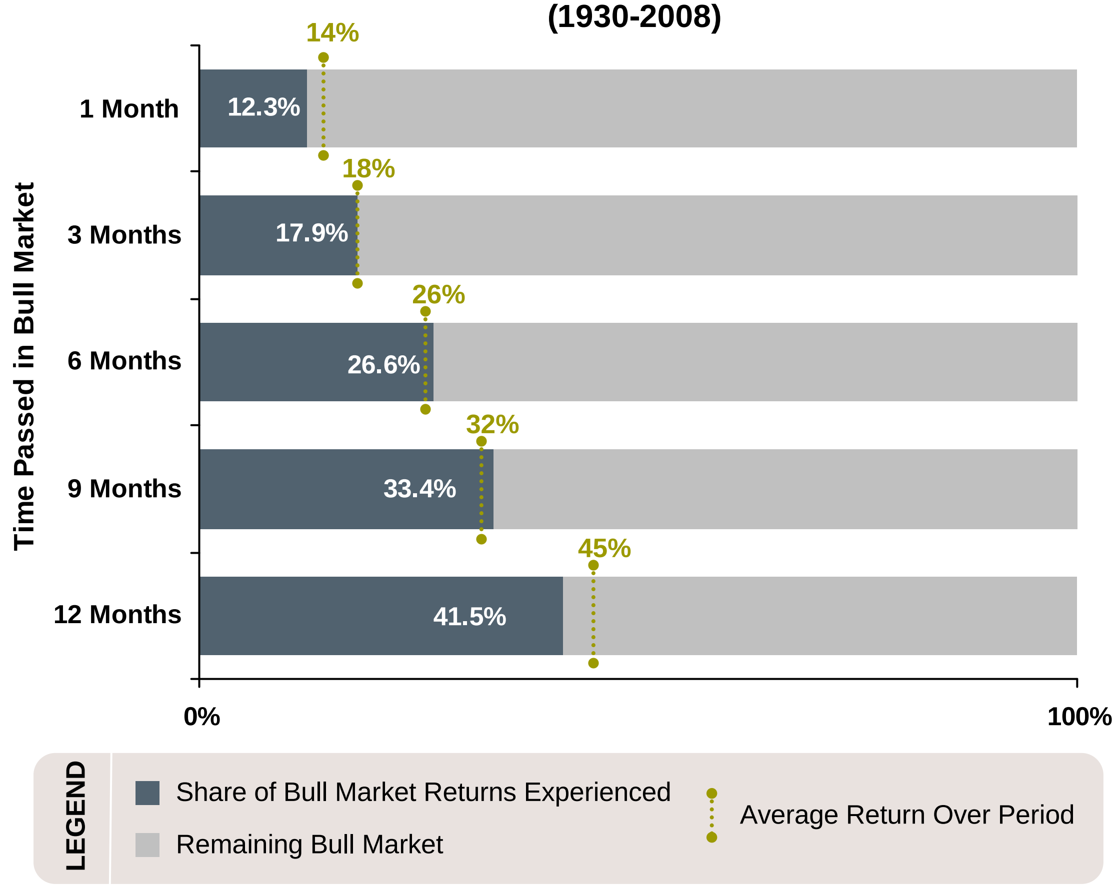
Bull Markets:
The Early Bird Caught Returns

KEY TAKEAWAYS

- **While bull markets have often lasted for multi-year periods, a significant portion of the gains have typically accrued during the early months of a bull-market rally.**
- **Investors who flee to cash during bear markets should keep in mind the potential cost of missing the early stages of a market recovery, which historically have provided the largest percentage of returns per time invested.**

Missing the Early Stages of a Bull Market Can Be Costly

Average Share of Performance in Early Stages of Bull Markets (1930-2008)



All stock market performance figures in this article represented by S&P 500® Index using daily data.
Source: Bloomberg, FMRCo (MARE) as of 1/31/2009. Past performance is no guarantee of future results. You cannot invest directly in an index. The S&P 500®, a market-capitalization-weighted index of common stocks, is a registered service mark of the McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation.

U.S. stocks have tended to soar out of the gate

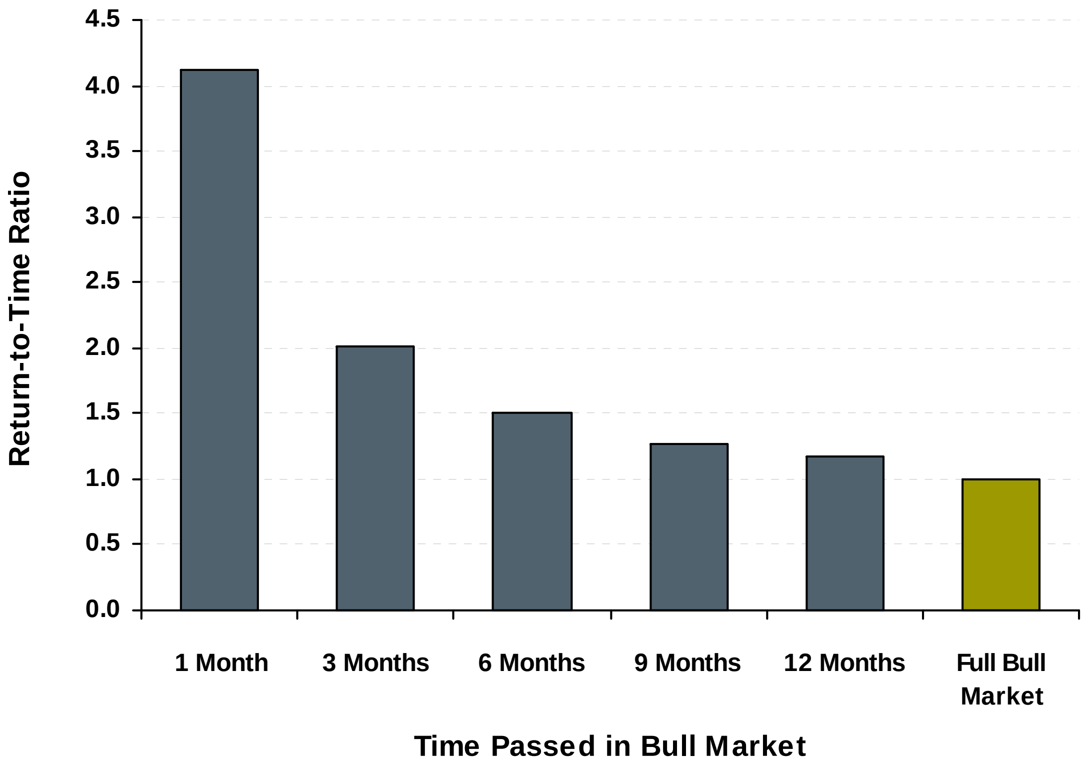
- There have been 14 bull markets (defined as an increase of 20% or more in stock prices) since 1930. They have varied in size and scope, lasting from just over a year to nearly 10 years, with returns ranging from 38% to more than 400%.
- Bull markets tend to have one thing in common: front-loaded performance.
- For example, the first month of a new bull market on average has provided an investor with more than 12% of an *entire* bull market's gains, with an average return of 14% during these initial months (see chart, left).
- Within six months, more than one quarter (27%) of an entire bull market's performance (on average) was already in the books.
- The first 12 months of the average bull market has provided more than 40% of an entire bull market's price appreciation, yielding on average 45% for investors—well above the category's long-term average annual return of 10%.

Waiting for a sustained rebound can be costly

- By definition, new bull markets are not known until the stock market has *already* increased 20%. Investors who are prone to move entirely out of stocks during bear market declines (a drop of more than 20%) might want to re-consider such action, as attempting to properly time the beginning of a new bull market can be challenging.
- Further, those who choose to re-enter after a few months of positive performance—when the climate feels "safe"—may miss a sizable portion of a bull market's overall gain.

Early Months of Bull Markets Offered Most "Bang for Your Buck"

Return-to-Time Ratio in Bull Markets
(1930-2008)



Source: Bloomberg, FMRCo (MARE) as of 1/31/2009. Return-to-time ratio represents the percentage of an entire bull market's return experienced in a respective period divided by the percentage of time elapsed in a bull market. For the purposes of calculating the ratio in multiple bull markets, averages are used. A ratio greater than one denotes a higher portion of returns were experienced relative to the percent of time experienced. You cannot invest in an index. Past performance is no guarantee of future results.

Stock values fluctuate in response to the activities of individual companies and general market and economic conditions, domestically and abroad.

Early months provide more than one's fair share

- Another way to consider the front-loaded nature of bull market performance is by measuring the proportion of returns realized per the amount of time invested in a bull market.
- The ratio of returns relative to the amount of time that has passed can be considered a measure of time-weighted "bang for your buck."
- If returns were spread out evenly through an entire bull market, then every time period would have a "return-to-time" ratio of 1. *If more than the average proportion of bull market performance accrues to a period of time, the return-to-time ratio for that time period would be greater than one*.
- On average, the first month of a new bull market has represented only 3% of the length of a bull market; however, more than 12% of a bull market's total return has occurred during this one-month period. This initial month thus has a "return-to-time" ratio higher than 4—by far the most rewarding time horizon to be invested during a bull market (see chart, left).
- The periods (see chart) leading up to the first year of a bull market have had a ratio greater than 1 (on average), indicating the front-loaded nature of performance in previous bull markets. In addition, the ratio has trended downward the longer a bull market has persisted.

Investment Implications

- Investors who flee to cash during bear markets should keep in mind the potential cost of missing the early stages of a stock market recovery, which historically have provided the largest percentage of returns per time invested.

Past performance is no guarantee of future results.

Investment decisions should be based on an individual's own goals, time horizon and risk tolerance.