Stock Market Bottoms - Part 1
What Signals a Stock Market Bottom?

There are very few times in life when a bell rings to confirm you have just reached the top of anything (or the bottom, for that matter). This is never truer than for equity market investors.

I know this is true because 'experts' spent more than 10 years during the bull market of the 2010s continually calling the top at every slight hiccup.

The same is true when trying to call a bottom during a bear market. There is no announcement, or alarm bell. Nobody flies flags signalling that the coast is clear, and we can all go back to stellar market returns.

Life would be easier if the world was like this, but if everything was obvious in stock markets they wouldn't offer such good long-term returns, and equity investing really is for the long term.

9th March 2009 happens to be a very significant date – It was the day of the bottom of one of the worst market crashes in stock market history. The S&P 500 had fallen 53.8% to only 676.53 since its peak of 9th October 2007.

At the time, that Monday morning, it certainly wasn't obvious that the day was THE bottom. Sadly, it is never obvious. Just to make the point, I went looking for some US financial news clips from 9th March 2009 and found not a single snippet of positive news from the TV 'experts', though there was lots of blame- apportioning, and the wringing of hands.

Here is an example:- https://www.youtube.com/watch?v=QzxE5zYs7vU

Even at the depths of the crisis it seemed things were only going to get worse - And yet in the 2 months from 9th March to 8th May 2009, the S&P500 climbed 37.4% to 929.23.

Here we are in 2022, and the S&P 500 has fallen about 23% year-to-date, and almost every other market shows similar falls. This is an important reminder of how difficult it is to correctly identify the bottom during a freefall in stocks.

I wish it was easy but there are no all-clear signals to tell you when the dust is going to settle. Here are various indicators at the bottom of every bear market since 1945:

S&P 500 Bear Market Bottoms Since WWII

Peak	Trough	% Decline	10 Year Yield	CAPE Ratio	Inflation Rate	Dividend Yield
5/29/1946	10/9/1946	-26.6%	2.3%	14.4	14.9%	4.0%
6/15/1948	6/13/1949	-20.6%	2.3%	9.1	3.3%	7.3%
7/15/1957	10/22/1957	-20.7%	2.8%	12.1	2.9%	5.9%
12/12/1961	6/26/1962	-28.0%	3.9%	16.8	1.3%	3.7%
2/9/1966	10/7/1966	-22.2%	5.0%	18.8	3.8%	3.7%
11/29/1968	5/26/1970	-36.1%	7.9%	14.0	6.0%	4.2%
1/11/1973	10/3/1974	-48.2%	7.9%	8.7	12.1%	5.2%
11/28/1980	8/12/1982	-27.1%	13.1%	6.6	5.9%	6.2%
8/25/1987	12/4/1987	-33.5%	9.0%	13.4	4.4%	3.7%
3/24/2000	10/9/2002	-49.1%	3.9%	22.0	2.0%	1.9%
10/9/2007	3/9/2009	-56.8%	2.8%	13.3	-0.4%	3.6%
2/19/2020	3/23/2020	-33.9%	0.9%	24.8	1.5%	2.3%
Averages		**-32.7%**	**5.1%**	**14.5**	**4.8%**	**4.3%**

Source: Shiller

*For info, the CAPE Ratio is the ratio the S&P 500's current price divided by the 10-year moving average of inflation-adjusted earnings.

If you look at interest rates, valuations, inflation rates and dividend yields for every one of these bottoms there isn't much consistency, and certainly no real pattern.

Sometimes valuations reach rock bottom levels but not always. Sometimes bond yields are high when stocks bottom and sometimes they're low.

Dividend yields have spiked during past market crashes but that is not really much of a guideline. With dividends declared bases on a company's last year performance, it is not surprising to see bigger yields as a percentage of the company's current price. Inflation, a hot topic globally in November 2022, are all over the place on the table, so even if you know what price levels will look like in mid-2023 it still might not help you predict where the stock market will be.

You could try to use the economy as an indicator for the stock market but good luck with that. Inflation, Fed base rate, nonfarm payroll report, consumer confidence index, Producer Price Index - The data within all these measures is important, but none, either alone or combined, so far have accurately predicted the end of a bear equity market

This is going to sound silly, but the best indicator that a bear market is over is price. The bear market will be over when stock prices start moving higher.

The problem is that every time stocks begin going up in times like these, it will feel like a bear market rally or 'dead cat bounce' that's going to fizzle out.

Then one day, one of those bear market rallies that feels like a 'bounce' is going to eventually turn into the new bull market. There is just no way to tell when this will happen.

Sometimes you need to have a little faith and a lot of patience...