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The Worst Years for US Stocks

Stock market losses occur for various reasons. Sometimes they are driven by excessive market valuations after an extended bull market. In others, they may be due to external events, such as a war or a pandemic. A look back at the worst years for US stocks provides perspective on how long a selloff can last and shows that even the worst years come to an end.

The bad news:

- From 1928 - 2021, the S&P 500 had 25 negative years[i]. In other words, 73% of the time stocks had positive returns.
- Of the 25 negative years since 1928, 11 of those were double-digit losses and mark the worst years[ii].
- While rare, there have been eight times since 1928 of two consecutive years of negative returns. Rarer still, there have been three instances of three consecutive years of negative returns and only once, during the Great Depression, when stocks fell four years in a row[iii].

The good news:

- The longer-term returns after the worst years have historically been strong. Historically, after the worst years, the average three-year historical return was +35%, while the average five-year return was 80%[iv].
- While the results of the one-year period following the worst years are mixed, there was only one three-year period during the Great Depression with negative returns.
- Looking further out, every five-year period return following one of these worst years, saw positive returns.

The Worst Years Ever For the U.S. Stock Market

Year	S&P 500	Reason	Next Year	3 Years	5 Years
1931	-43.8%	Great Depression	-8.6%	35.4%	162.1%
2008	-36.6%	Great Financial Crisis	25.9%	47.6%	126.1%
1937	-35.3%	1937 Crash	29.3%	14.2%	18.7%
1974	-25.9%	1973-74 Bear Market	37.0%	57.8%	99.2%
1930	-25.1%	Great Depression	-43.8%	-23.0%	11.6%
2002	-22.0%	Dot-Com Crash	28.4%	49.0%	81.7%
1973	-14.3%	1973-74 Bear Market	-25.9%	25.7%	24.5%
1941	-12.8%	WWII	19.2%	77.4%	120.6%
2001	-11.9%	Dot-Com Crash	-22.0%	10.9%	34.4%
1940	-10.7%	WWII	-12.8%	30.0%	110.2%
1957	-10.5%	1957-58 Recession	43.7%	61.6%	86.6%

Source: Ben Carlson, A Wealth of Common Sense

Even after the worst years for stock markets, the markets have always bounced back. Investors who remain disciplined in a negative market are likely to avoid common pitfalls and potentially enjoy better times ahead. Historically, the longer you stay invested, the greater the possibility of meeting your long-term goals.

[i] FactSet
[ii] https://awealthofcommonsense.com/2022/05/the-worst-years-ever-in-the-stock-market/ [iii] FactSet
[iv] https://awealthofcommonsense.com/2022/05/the-worst-years-ever-in-the-stock-market/

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