

Stock Market Cycles: A Graphical Presentation



Five Decades of Market Highs and Lows on the Johannesburg Stock Exchange

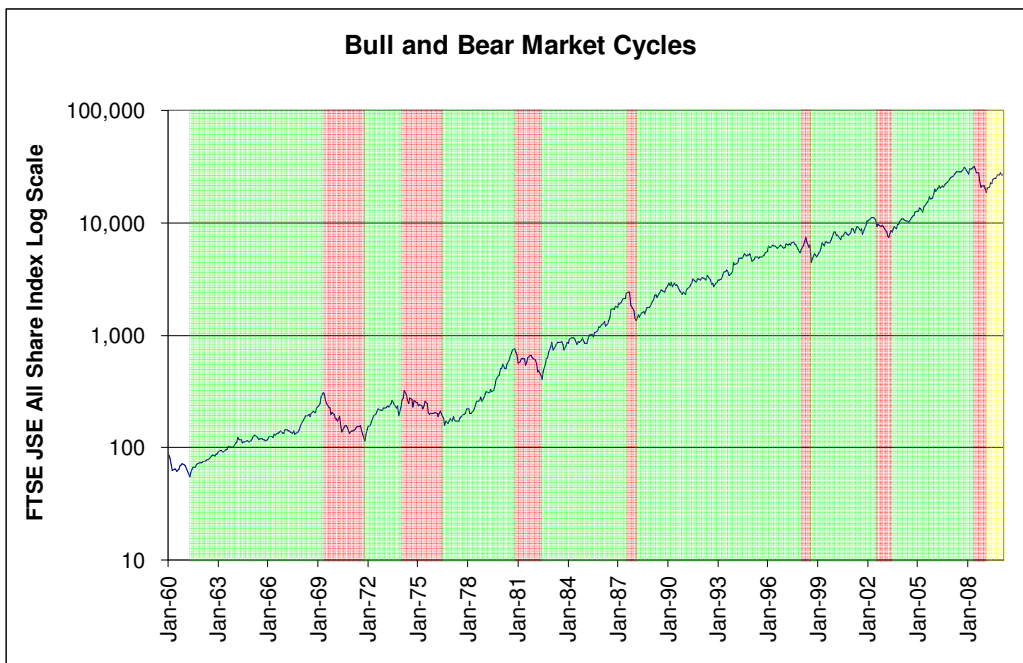
By Daniel R Wessels

April 2010

31 January 1960 – 28 February 2010

1. Bull and Bear Market Cycles

- Seven complete cycles since 1960
- Bull market = Trough to peak (market low to market high)
- Bear market = Peak to trough (market high to market low)



2. Bull Market Periods

- Trough to peak
- Start of bull market at 40-60% of previous market high
- Average duration 66 months
- Average duration to surpass previous market high (peak) 20 months
- Three distinctive bull market phases; *recovery*, *consolidation* and *optimism*

Recovery:

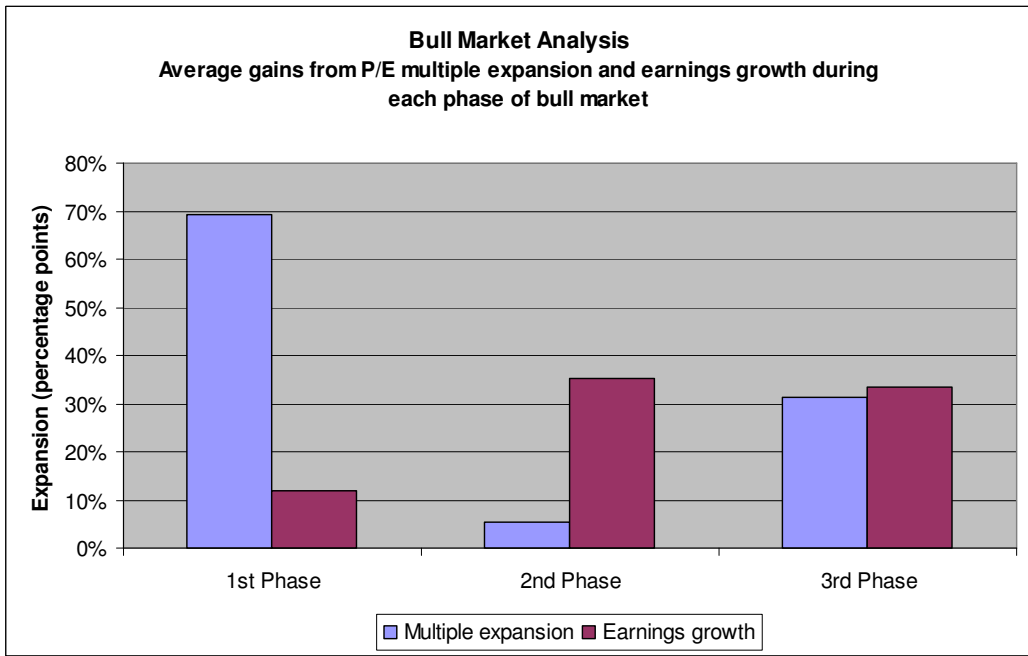
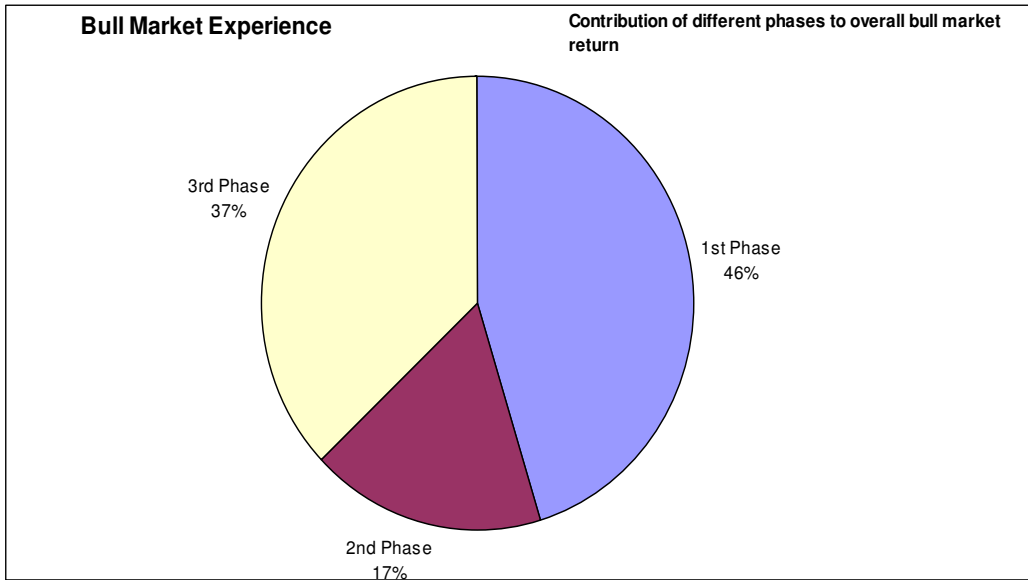
- The recovery phase is typically the largest contributor of overall bull market return
- The expansion of the market's P/E multiple is the major driver of returns during the first phase

Consolidation:

- Relatively benign market returns during the consolidation phase
- Typically the smallest contributor of gains during the bull market cycle
- The resurgence of companies' earnings growth is the major driver of returns during the second phase

Optimism:

- Both earnings growth and P/E multiple expansion contribute equally to overall gains during the third phase
- Typically the second most important phase of the overall bull market cycle



2.1 *April 1961 – April 1969*

Duration:	96 months
Total return:	462%
Annualised return:	24.1%
Start of bull market:	64% of previous market high
Duration to surpass previous market high:	17 months

2.2. *October 1971 – March 1974*

Duration:	29 months
Total return:	178%
Annualised return:	52.6%
Start of bull market:	38% of previous market high
Duration to surpass previous market high:	29 months

2.3 *August 1976 – October 1980*

Duration:	50 months
Total return:	387%
Annualised return:	46.2%
Start of bull market:	49% of previous market high
Duration to surpass previous market high:	35 months

2.4 *Jun 1982 – August 1987*

Duration:	62 months
Total return:	498%
Annualised return:	41.3%
Start of bull market:	53% of previous market high
Duration to surpass previous market high:	10 months

2.5 *February 1988 – April 1998*

Duration:	122 months
Total return:	441%
Annualised return:	18.1%
Start of bull market:	56% of previous market high
Duration to surpass previous market high:	18 months

2.6 *August 1988 – May 2002*

Duration:	45 months
Total return:	150%
Annualised return:	27.7%
Start of bull market:	61% of previous market high
Duration to surpass previous market high:	15 months

2.7 *April 2003 – May 2008*

Duration:	61 months
Total return:	324%
Annualised return:	32.8%
Start of bull market:	67% of previous market high
Duration to surpass previous market high:	17 months

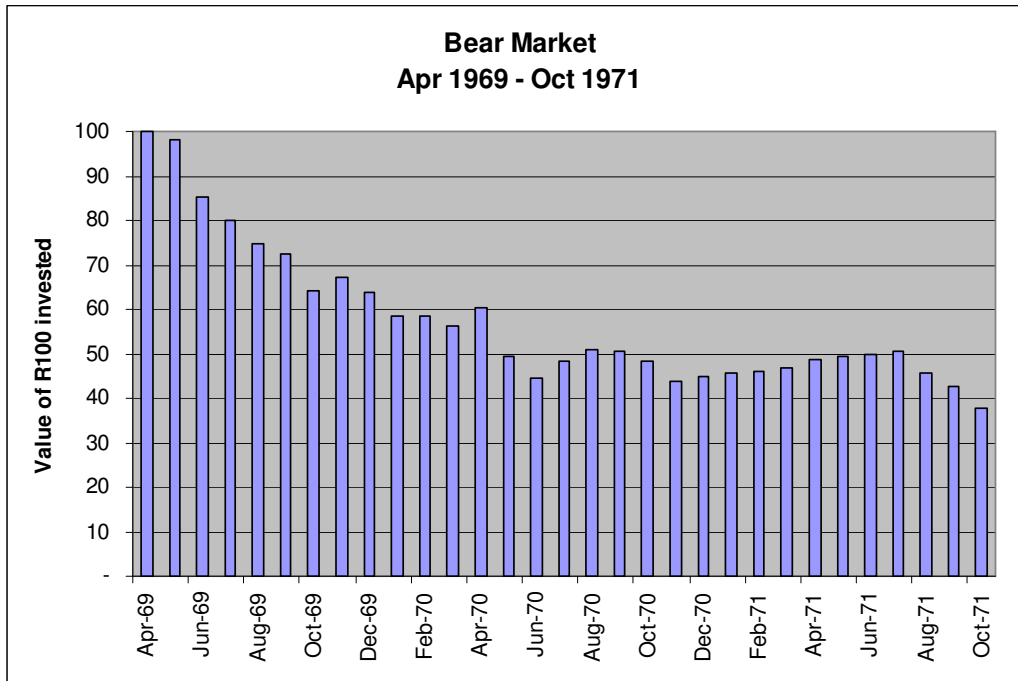
3. Bear Market Periods

- Peak to trough cycle
- Relatively short duration, but abrupt declines from previous market highs
- Average duration 16 months
- Average loss 46% from previous market high

3.1 April 1969 – October 1971

Duration: 30 months

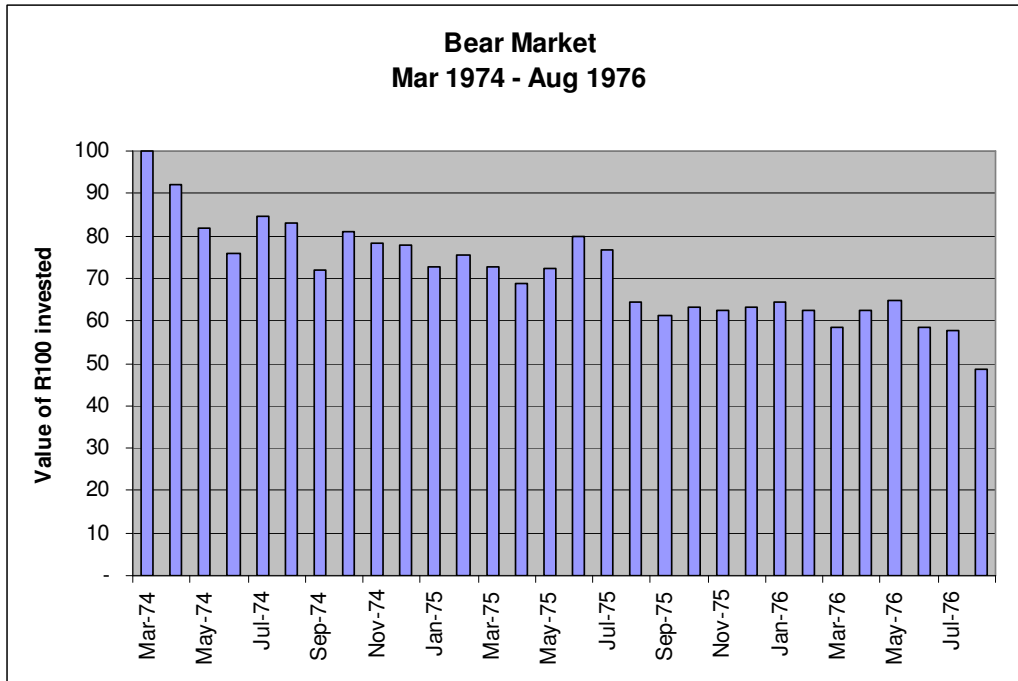
Loss: 62.4%



3.2 March 1974 – August 1976

Duration: 29 months

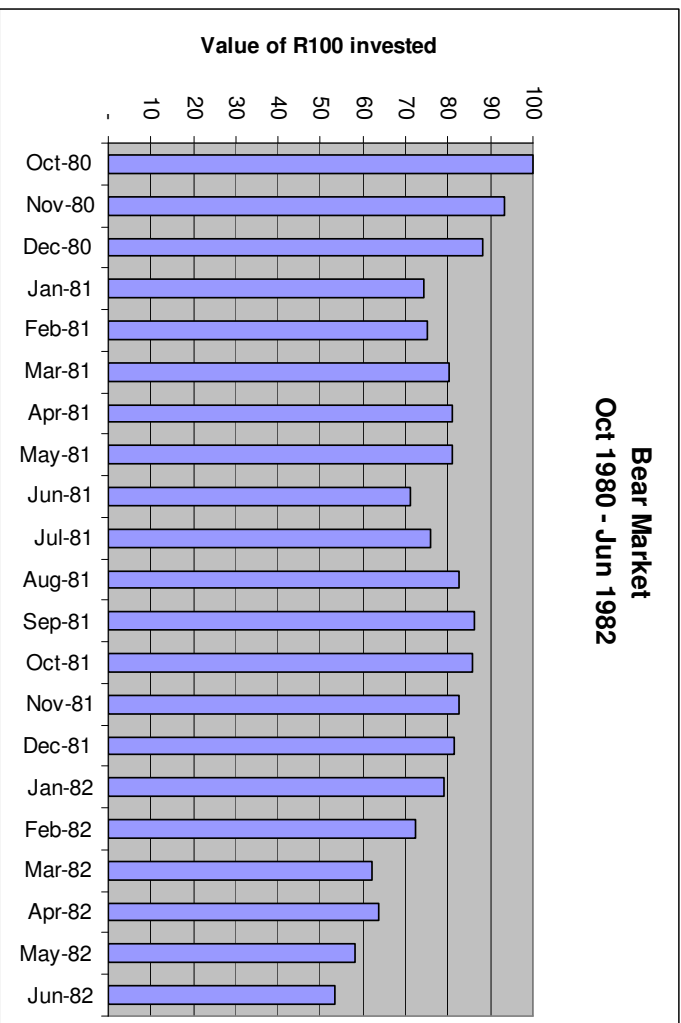
Loss: 51.4%



3.3 *October 1980 – June 1982*

Duration: 20 months

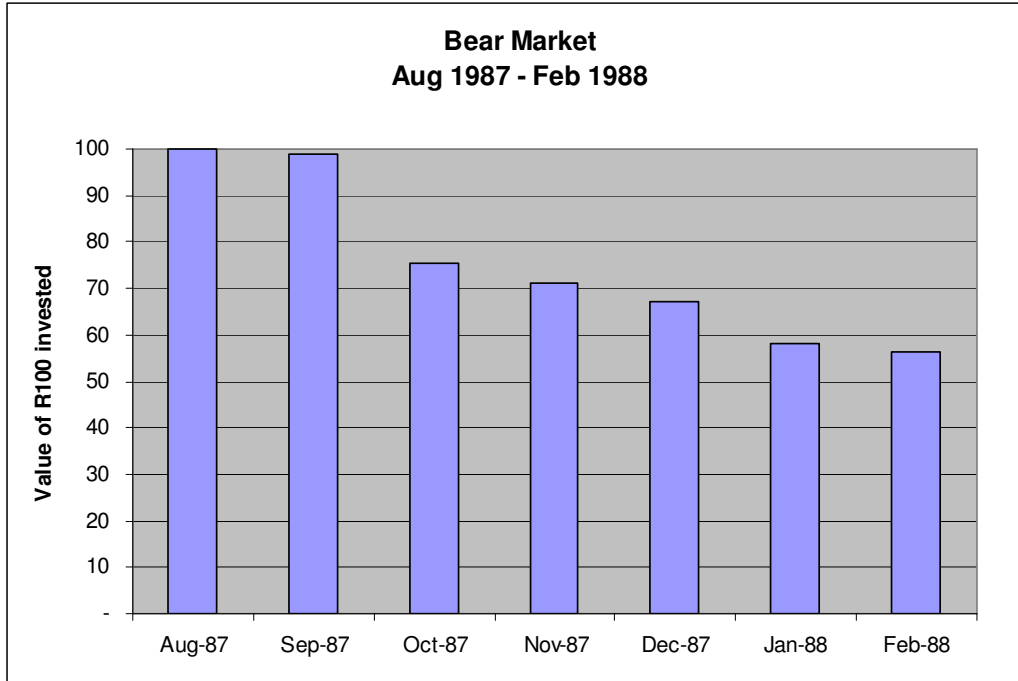
Loss: 46.7%



3.4 August 1987 – February 1988

Duration: 6 months

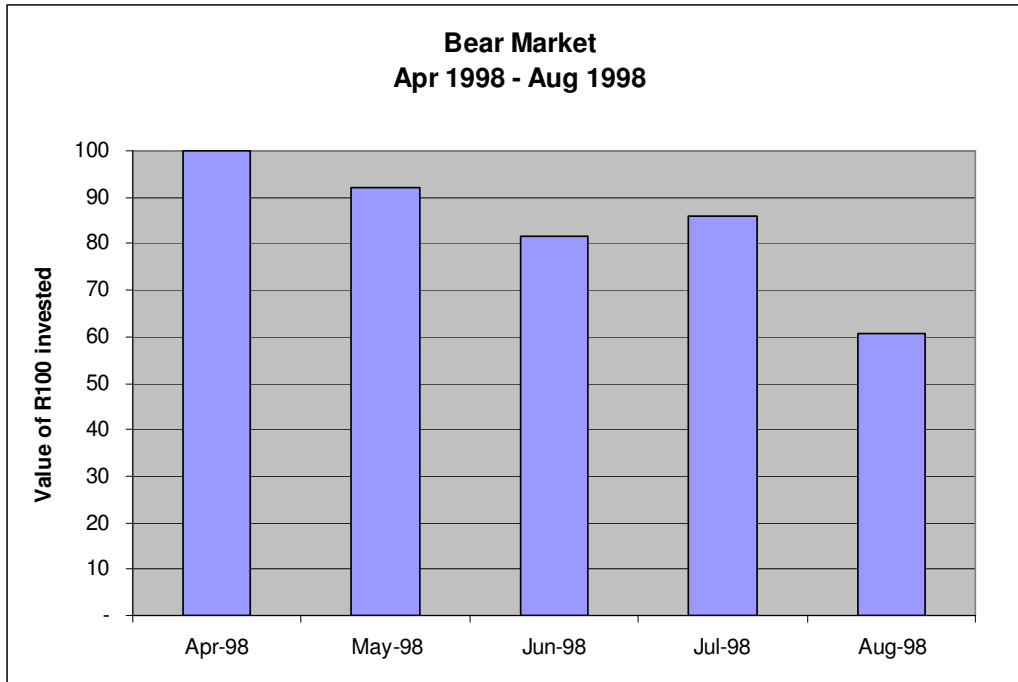
Loss: 43.9%



3.5 *April 1998 – August 1998*

Duration: 4 months

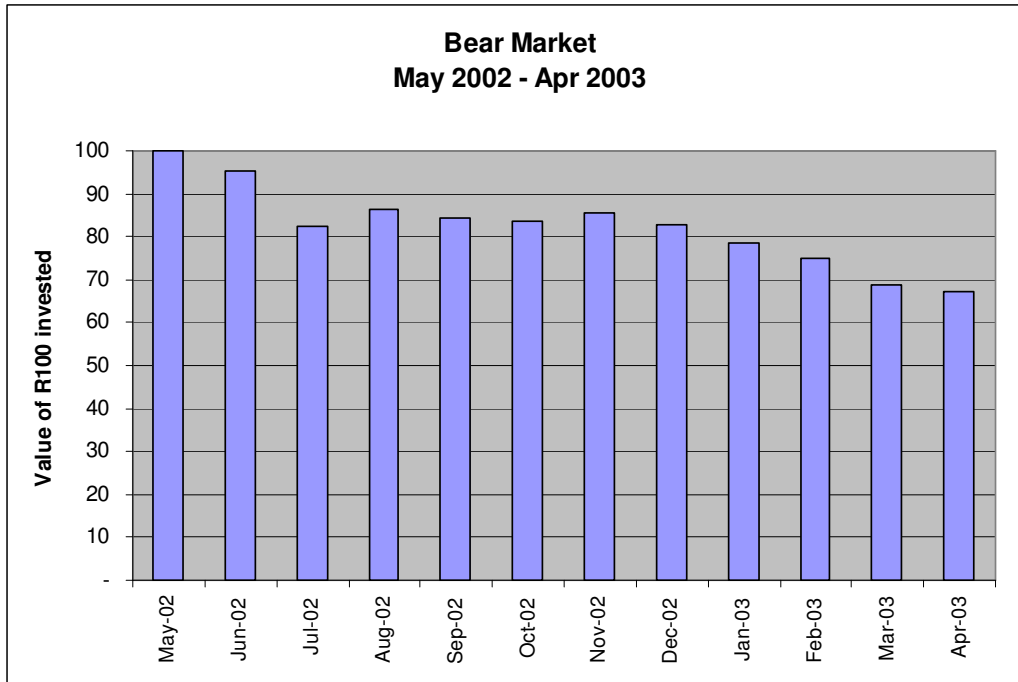
Loss: 39.4%



3.6 *May 2002 – April 2003*

Duration: 11 months

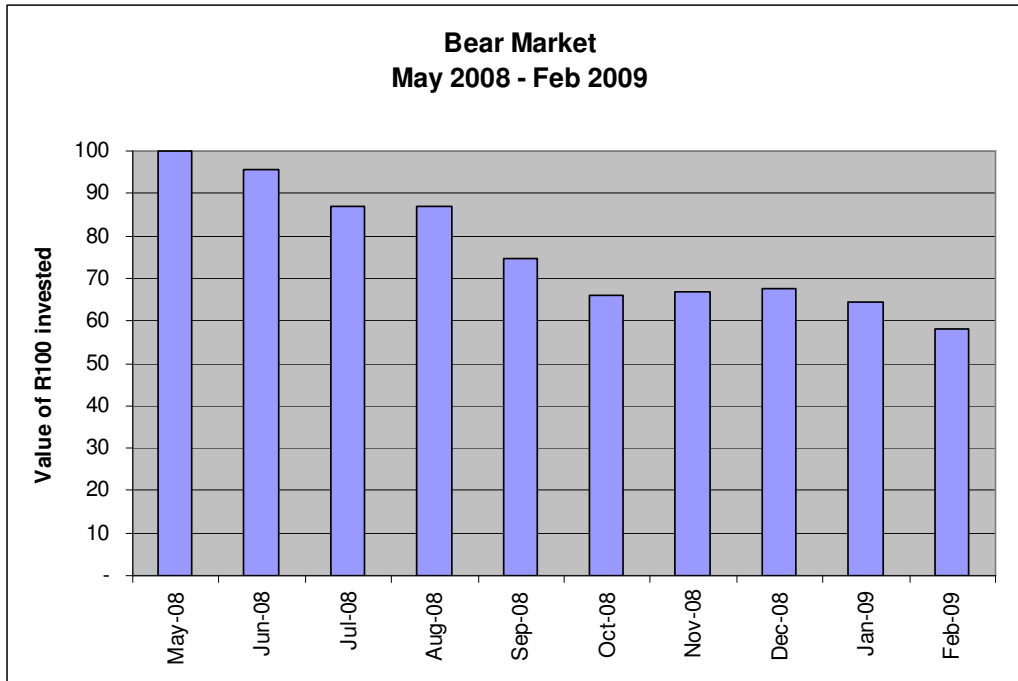
Loss: 32.9%



3.7 *May 2008 – February 2009*

Duration: 9 months

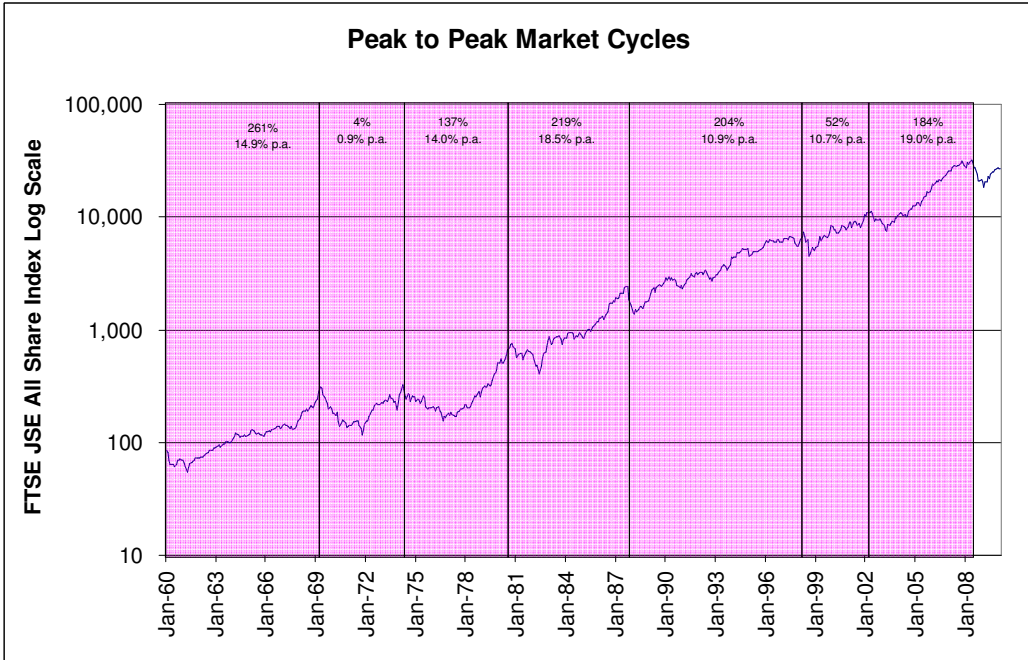
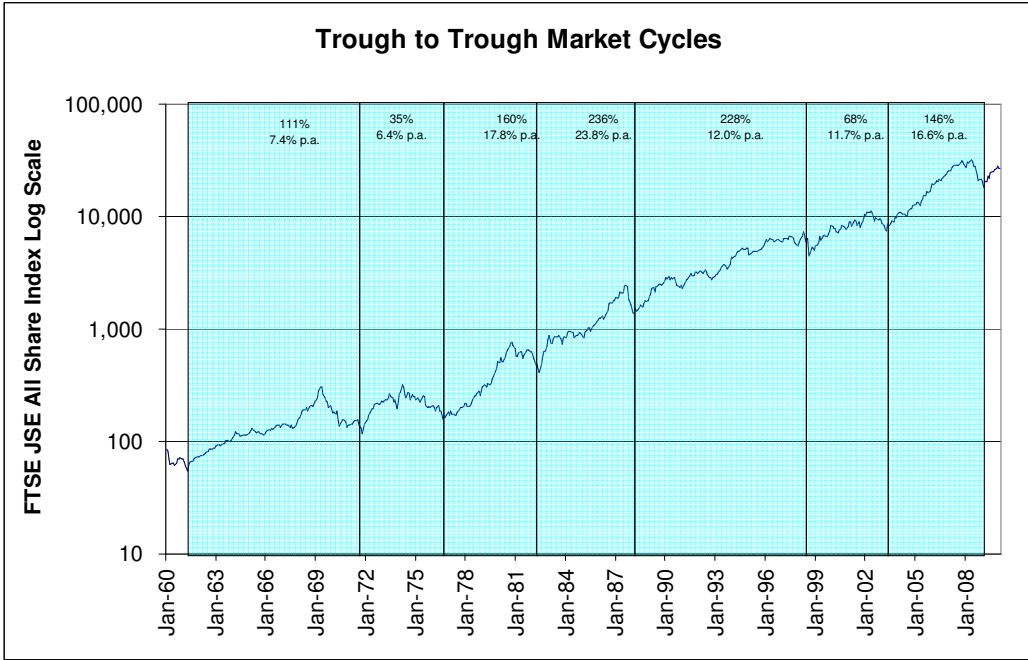
Loss: 42.0%

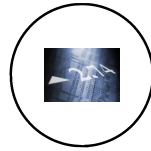


4. Alternative Cycles

- Seven peak to peak and trough to trough cycles since 1960
- Very similar return profiles

Per Period	Trough to Trough	Peak to Peak
Average duration	83 months	84 months
Average total return	140%	152%
Average annualised return	13.7%	12.7%





DRW
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