S&P data offer hope for stocks

History shows time to buy is now if you have the courage

By Bernard Condon
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NEW YORK — OK, you're gutsy enough to buy on dips. Now how about buying on a dive?

After a scary slump for stocks this spring, that's the question facing many investors. In the three months ended June 30, the Standard & Poor's 500 index fell 11.9 percent, the biggest quarterly loss since the financial crisis. The fear is that economic growth may slow, or stall, and that's got even bulls wondering if stocks could drop even lower.

The good news: If you can muster the courage to buy, history suggests you may be rewarded.

According to an S&P analysis of prices going back to the Great Crash of 1929, stocks tend to climb in quarters following big declines.

"The market is like a rubber band," said S&P Chief Strategist Sam Stovall after finishing his analysis Friday. "Stretch it too far, and it's likely to snap back."

Time and again, the pattern seems to repeat: Investors get carried away selling but then come to their senses and start buying again.

Some details and lessons from Stovall's numbers:

- Good follows bad seven out of 10 times.

Since Calvin Coolidge was president in the 1920s, stocks have fallen 5 percent or more in 41 quarters. But that was followed by stock rises over the next three months 29 times — or seven out or 10 times.

- Rises anticipate recoveries.

It is said the stock market looks six months or more in the future, and the S&P data bears this out. Some of the biggest rises come before economic recoveries when unemployment is still high and growth low.

The unfortunate corollary: Stocks also anticipate recession. That raises the prospect that the current drop could be signaling a feared double-dip, or back-to-back recessions.

- Read Horace

The Roman poet has been dead 2,000 years but he still offers insight into the market: "The harder you fall, the higher you bounce," he wrote. In quarters when stocks rose after falling 15 percent or more, the rebound averaged 23 percent.

Doug Roberts, chief investment officer of Channel Capital Research, said this quarter could see a stock market bounce though he suspects it won't amount to much.

"People thought the government would prime the pump (with stimulus spending) and then we'd have a V-shaped recovery," he said. "But what we're seeing is that the government IS the recovery."

Roberts' prediction: Stocks flat for the rest of the year.