



## Recession Returns

July 18, 2023

What if somebody could tell you the exact date when the next recession will begin, so you could get out of the market and wait it out? Wouldn't that be great?

You can fantasize about this if you want. But it so happens that sitting on the sidelines during an economic recession is actually bad for your portfolio returns.

A study conducted by a mutual fund company called Dimensional Fund Advisors did something very simple: it looked at the start date of all recessions from January 1947 to December 2022, as announced by the National Bureau of Economic Research. Then it calculated the returns of the Standard & Poor's 500 index for the ensuing one year, three, and five years after the recessions were formally declared. Finally, it averaged those returns to show how investor portfolios, on average, fared during those times when the economy was in the tank.

The result was not encouraging to those who plan to move to the sidelines during recessions. On average, one-year market returns after the start of a recession came to a decently positive 6.4%. Three-year and 5-year returns were even more so: 43.7% and 70.5% over those periods.

Looking over the data, the researchers noticed that markets have, on average, tended to experience most of their bear market declines before recessions were announced, and began recovering soon afterward. The markets tended to trend upward during the recession, perhaps because investors anticipated that it would end soon, and good times would restore corporate health.

The bottom line is pretty clear: even if you knew the exact date and time that a recession would be announced (and you don't), the future market movements would still be uncertain—and, on average, counterintuitive. Better to throw dice, or darts, or examine turtle shells to find out what's coming in the future.

**Source:**

<https://www.advisorperspectives.com/articles/2023/06/16/tax-equity-stock-economic-forecasting-swedroe>

<http://elink.dimensionalfund.com/m/1/62855187/02-b23156-d6a1f395214f448b94d84ebf9de8f870/2/25/34a9e829-8ec4-4cb8-9c7c-1de76cfbf3d1>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

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**Jeffrey Broadhurst**  
MBA, CFA, CFP  
Broadhurst Financial Advisors, Inc.



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**Our physical and mail address:**

1911 West Point Pike  
P.O. Box 301  
West Point, PA 19486-0301

**Contact us:**

Phone: (215) 325-1595  
Email: [jeff@broadhurstfinancial.com](mailto:jeff@broadhurstfinancial.com)