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# Big rallies follow big stock drops, hint at bounces to come

By Matt Krantz, USA TODAY

Stocks kicked back into rally mode Monday, ending a week-long slump, as Wall Street rediscovered its appetite for stocks.

All three major U.S. indexes climbed 3%, with the Dow Jones industrials up 235 points to 8504, after better-than-expected results from [home improvement retailer Lowes](#) and an improving [home builders index](#) fanned hopes the economy is on the mend.

If this is a sign that the rebound started in early March is back on track, some bulls say the gains reflect the kind of action investors can expect as stocks recover from the second-worst bear market ever. The reason? Extraordinary sell-offs tend to be followed by extraordinary rallies.

## STOCKS TUESDAY: Will they follow through?

"It's like if you were dropping a rubber ball from the top of a tall building to the sidewalk," says William Gibson of Nollenberger Capital Partners. "You get a big bounce-back."

The potential for a powerful rebound offers some solace after the pain of the past 19 months. Between October 2007 and the market's trough this year, investors saw 51.0% of their money evaporate, including dividends, Ibbotson Associates says, smaller only than the 83% drop in the Standard & Poor's 500 index starting in August 1929.

Reasons there could be even better gains on top of the rebound since March include:

- Historic downturns give way to historic rallies.** The S&P 500's best one-year recovery followed its biggest decline from August 1929 to June 1932, Ibbotson says. The S&P 500 posted a 163% total return the 12 months after the June 1932 bottom, easily topping the next-best recovery of 42% in the 12 months after the June 1970 bottom.
- Recent recessions have ended with powerful bull markets.** In the 12 to 21 months following the market bottoms after the previous five recessions, the Dow on average rocketed 55%, says Navellier & Associates.
- Recoveries come fast and with little notice.** When stocks finally find bottom, they tend to rally quickly. Nearly half of stocks' gains in the five years after the bear markets ending in '74 and '02 came during the first calendar year after the bottom, says Ken Winans of Winans International. "The big gains come when you're still in the fog of war."

And that's the dilemma, as investors wonder whether the March 9 lows marked the end of the pain. Jumping into the market too early, hoping to catch the bounce, may disappoint investors if stocks retest their lows instead, Gibson says. "We're past the free fall when people just froze. But we're still contracting," he says. "I don't think anyone can spot the bottom of the economy yet."

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