

# Do Stock Prices Rise More Often Than They Fall?

The subprime mortgage crisis that began in August of 2007—and a series of other financial sector events that battered stocks for months—will likely be remembered as a very turbulent time for investors. But, there is more than a century of proof that despite periodic downturns in stock prices, equities have been an outstanding long-term investment. Since the Dow Jones Industrial Average's inception in 1896, it has risen on a calendar-year basis almost twice as often as it has declined, as the chart illustrates. It posted positive returns for 72 years versus 39 years of negative returns. And on average, the index has produced an annual return of 7.6%.

Given that past performance does not guarantee future results, why else might people be inclined to believe in the market's potential? One school of thought, the growth school of investing, believes stock prices follow corporate earnings. Since WWII, annual after-tax corporate profits have increased twice as often as they have fallen, with an annual average increase of 9%, according to the Bureau of Economic Analysis.

So what happens when investors hear the news that the market is down AND corporate earnings seem in jeopardy? If they resist the panic sell, investors have historically been rewarded for their patience as stock prices rallied amid rough economic periods. Take, for example, two U.S. recessions: one in the 1980s and one in the 1990s. Beginning in the summer of 1981, the economy was mired in a downturn. While the country was technically in a recession from July 1981 to November 1982, the Dow staged a sharp rally during the final three months and even hit a new high along the way. A decade later, the economy again contracted during the summer—from July 1990 to March 1991—and again, before it was over, the Dow rose, and eventually surged 18% by the time the recession officially ended. History shows that stocks have rebounded before the economy has exited recessions, which is one reason why it is widely recognized as a leading economic indicator.

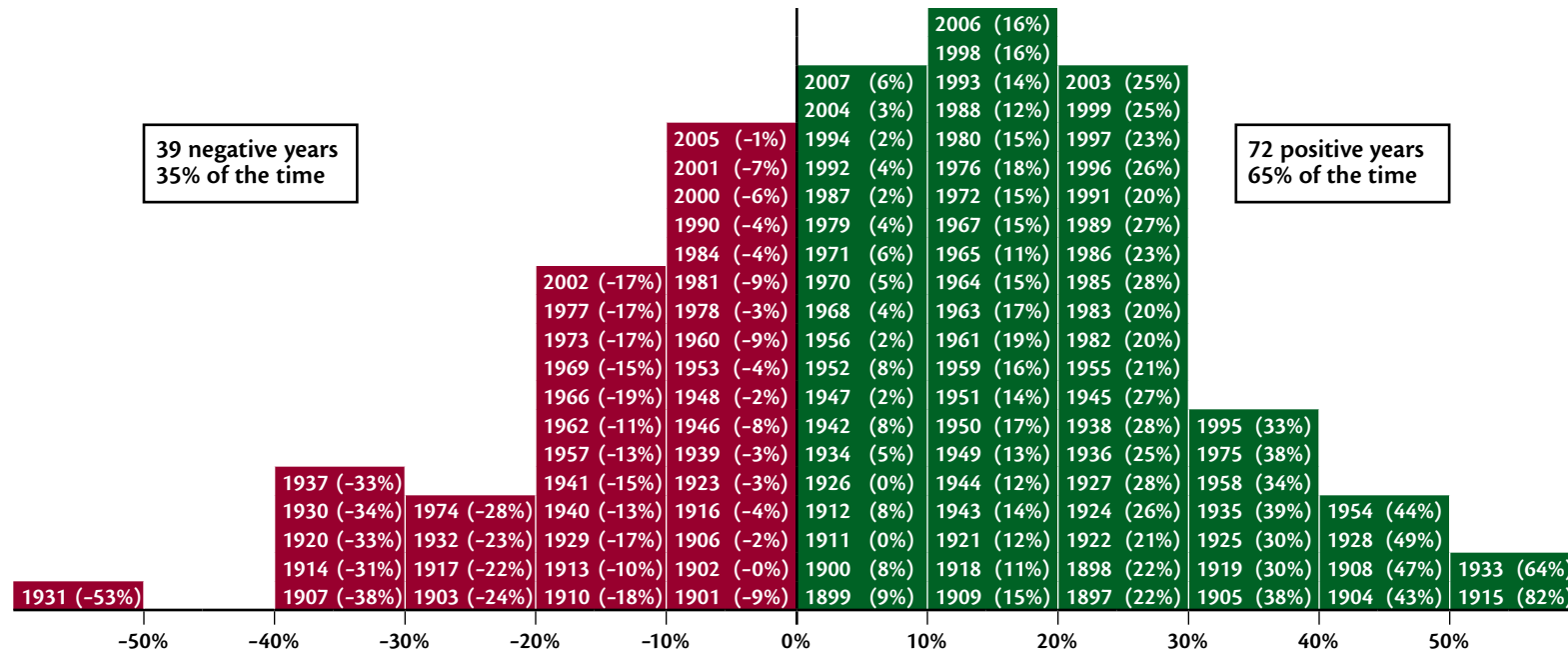
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# Dow Jones Industrial Average

## Calendar Year Returns (1897–2007)



Source of chart data: Dow Jones Indexes, 12/31/07. Past performance does not guarantee future results.

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