

MARKETS DECLINE. THEN THEY REBOUND.

PZENA Investment Management

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For Financial Advisor Use Only

The market unease that began early this year has intensified.

Many equity markets around the world are in a correction (down 10% or more) and, in some regions and sectors, markets entered bear market territory (down over 20%). How does this compare to history?

Market drawdowns are not rare. There have been 16 since 1960 (more than 1 every 4 years). Among them, 7 became bear markets.

Average of US Market Drawdowns Greater Than 10% Since 1960

	Corrections -10 to -20%	Bear Markets -20% or more
Occurrences	9	7
Average Length (months)	6.8	13.1
Average Market* Return	-14.9%	-34.5%
Average Value Stock Return	-12.5%	-33.6%

Long-term investors should be able to manage through market gyrations.

It's hard to say when the markets will find the bottom. Based on the averages we are either in the middle or near the end of this downturn. But drawdowns have ranged from just 2 months to 25 months (bursting of the tech bubble), making it difficult, if not impossible, to time exit and re-entry points.

Importantly, markets tend to rebound quickly off the bottom. Below we display the average cumulative returns following the 16 drawdowns. **Investors who stay in equities** and take the long view with a proper value exposure have historically been well rewarded during turbulent times.

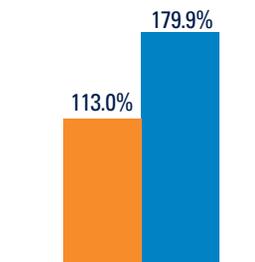
RETURNS ONE YEAR FROM TROUGH



RETURNS THREE YEARS FROM TROUGH



RETURNS FIVE YEARS FROM TROUGH



Source: Sanford C. Bernstein & Co., Pzena analysis. Data reflect averages and are based on monthly returns. Similar information based on daily returns will vary slightly. Drawdown timeline based on the market; subsequent performance periods begin when the market's performance troughs. *The market is defined as the largest 1,000 US stocks (cap weighted). Value stocks are defined as the cheapest quintile of the market based on price-to-book (equal weighted). Does not represent any Pzena product or service. Past performance is not indicative of future results.

Co-CIO John Goetz touches on uncertainty — the quick, fearful response and the recovery of hope that typically sets the stage for strong value-stock returns — in our recent podcast.



Podcast

31 min

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