

Journal of Business & Economic Statistics >

Volume 30, 2012 - [Issue 3](#)

1,753 56

Views | CrossRef citations to date

0

Altmetric

Original Articles

Components of Bull and Bear Markets: Bull Corrections and Bear Rallies

John M. Maheu, Thomas H. McCurdy & Yong Song

Pages 391-403 | Received 01 Mar 2010, Accepted author version posted online: 03 Apr 2012, Published online: 20 Jul 2012

 Cite this article <https://doi.org/10.1080/07350015.2012.680412>

 Full Article

 Figures & data

 References

 Citations

 Metrics

 Reprints & Permissions

Read this article

 Share

Abstract

Existing methods of partitioning the market index into bull and bear regimes do not identify market corrections or bear market rallies. In contrast, our probabilistic model of the return distribution allows for rich and heterogeneous intraregime dynamics. We focus on the characteristics and dynamics of bear market rallies and bull market corrections, including, for example, the probability of transition from a bear market rally into a bull market versus back to the primary bear state. A Bayesian estimation approach accounts for parameter and regime uncertainty and provides probability statements regarding future regimes and returns. We show how to compute the predictive density of long-horizon returns and discuss the improvements our model provides over benchmarks. This article has online supplementary materials.

KEY WORDS:

Long-horizon returns

Markov switching

Predictive density

ACKNOWLEDGMENTS

The authors are grateful for comments from the editor, associate editor, and two anonymous referees, Christos Ntantamis, Richard Paap, Hao Zhou, and participants at the Bayesian Econometrics in Macroeconomics and Finance conference at Erasmus University, the Bayesian Econometrics workshop at Rimini Centre for Economic Analysis (RCEA), the Canadian Econometrics Study Group, the Third Risk Management Conference, Mont Tremblant, and seminar participants from the University of Colorado, Brock University, and McMaster University. We thank the Social Sciences and Humanities Research Council of Canada for financial support.

Further reading

People also read

Recommended articles

Cited by

[Identifying Bull and Bear Markets in Stock Returns >](#)

John M. maheu et al.
Journal of Business & Economic Statistics
Published online: 2 Jul 2012

[Duration Dependence in Stock Prices: An Analysis of Bull and Bear Markets >](#)

Asger Lunde et al.
Journal of Business & Economic Statistics
Published online: 1 Jan 2012

[Regime switching in stock market returns >](#)

© Informa Group plc

[Privacy policy](#)

[Cookies](#)

[Terms & conditions](#)

[Accessibility](#)

[Help](#)

[Contact us](#)



Registered in England & Wales No. 3099067
5 Howick Place | London | SW1P 1WG