Market Corrections

What is going on and what to do about it

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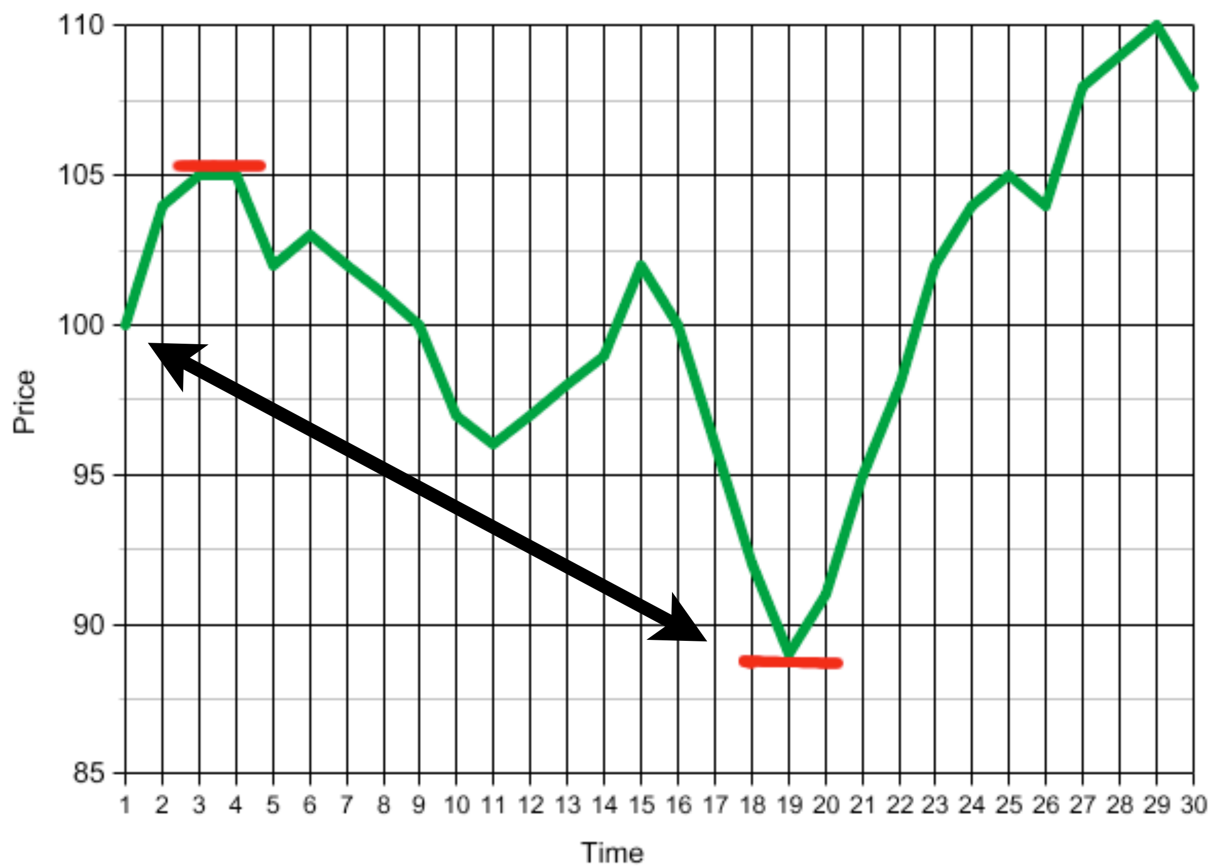
What is a market correction?



A price decline of 10% or more from the most recent market high (peak).

Current Correction in US Stocks

The S&P 500 is a stock index that tracks 500 of the largest companies.
Chart displays current % decline of S&P500 from its most recent high high on Jan 3 2022 as of Jan 24 2022

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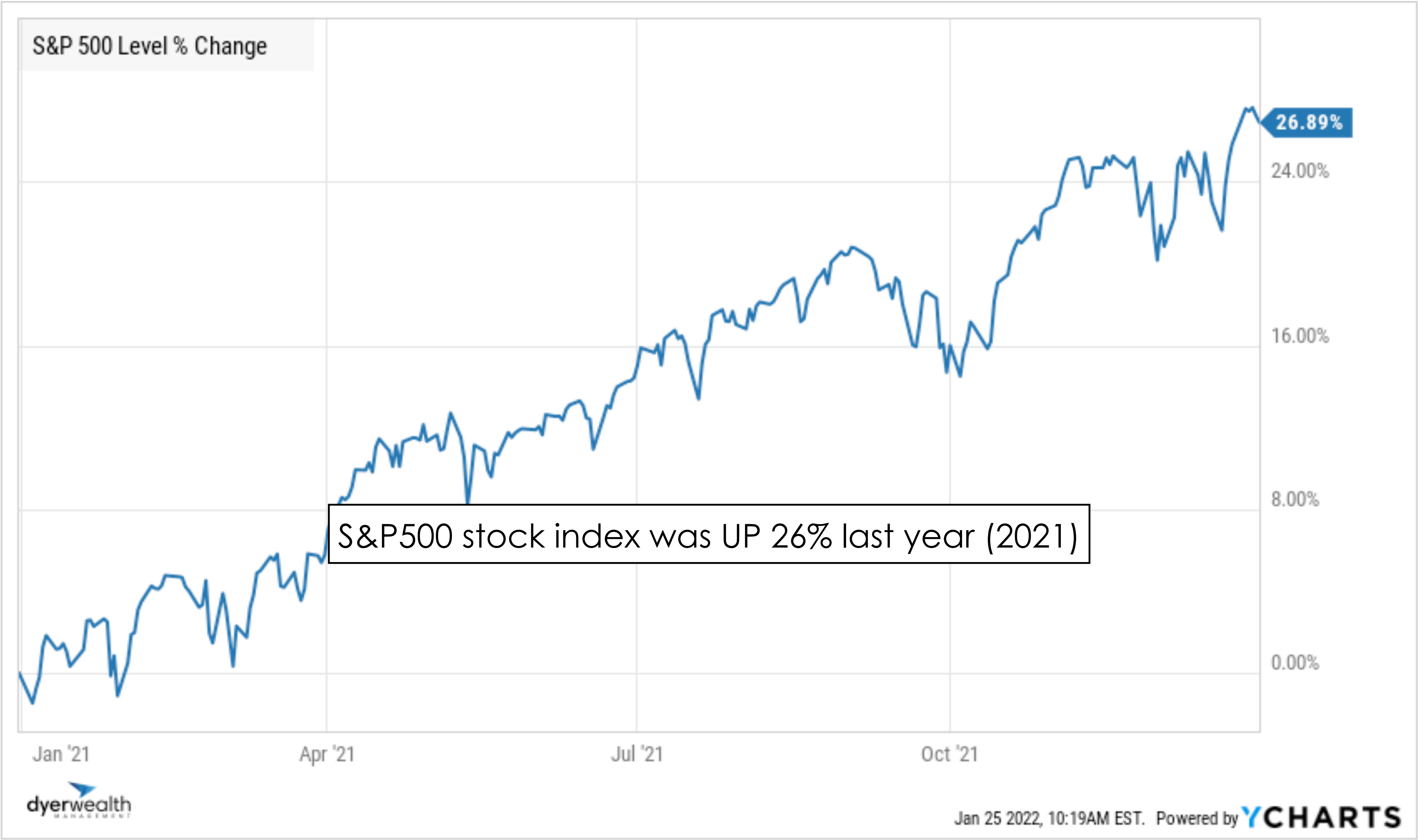
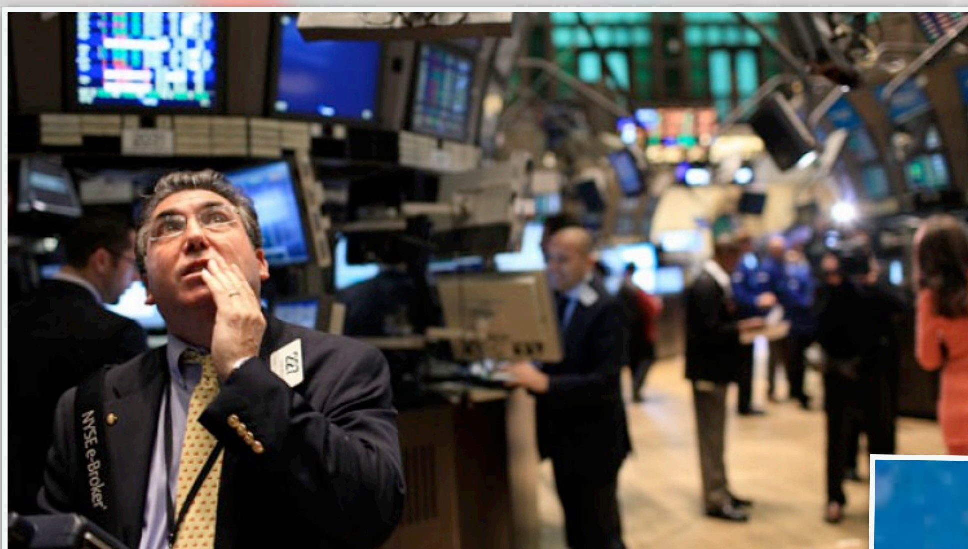
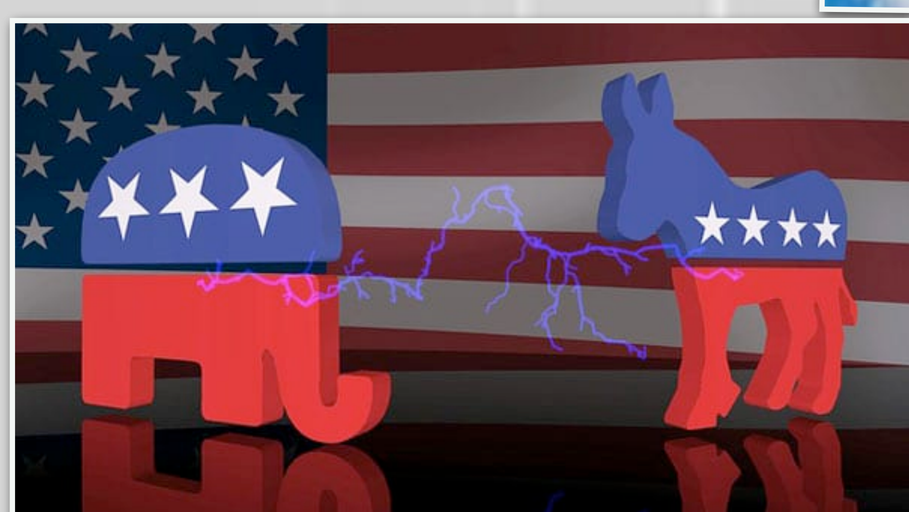
Following a strong year in US Stocks



The S&P 500 is a stock index that tracks 500 of the largest companies. yCharts data as of Jan 25th 2022.

Current Correction in US Stocks





What corrections feel like!

Percentage Drop:	Defined as:	Feels like:
0% to 5%	Pause	"whatever"
5% to 10%	Dip	"a return to normal"
10%	Correction	"nerve-wracking"
20%	Bear Market	"panic"
50%	Crash	"prison riot"
80%	Depression	"pack up the kids"

*Source: Josh Brown of *The Reformed Broker Blog*

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How often do 10% corrections happen?

- Since 2010- there have been **7**
- Since 1980- there have been **18**
- Since 1950- there have been **37**

Corrections are a necessary part of long term investing. They are why stocks historically have a higher rate of return over bonds.

Data provided by https://awealthofcommonsense.com/2021/02/a-short-history-of-u-s-stock-market-corrections-bear-markets/.

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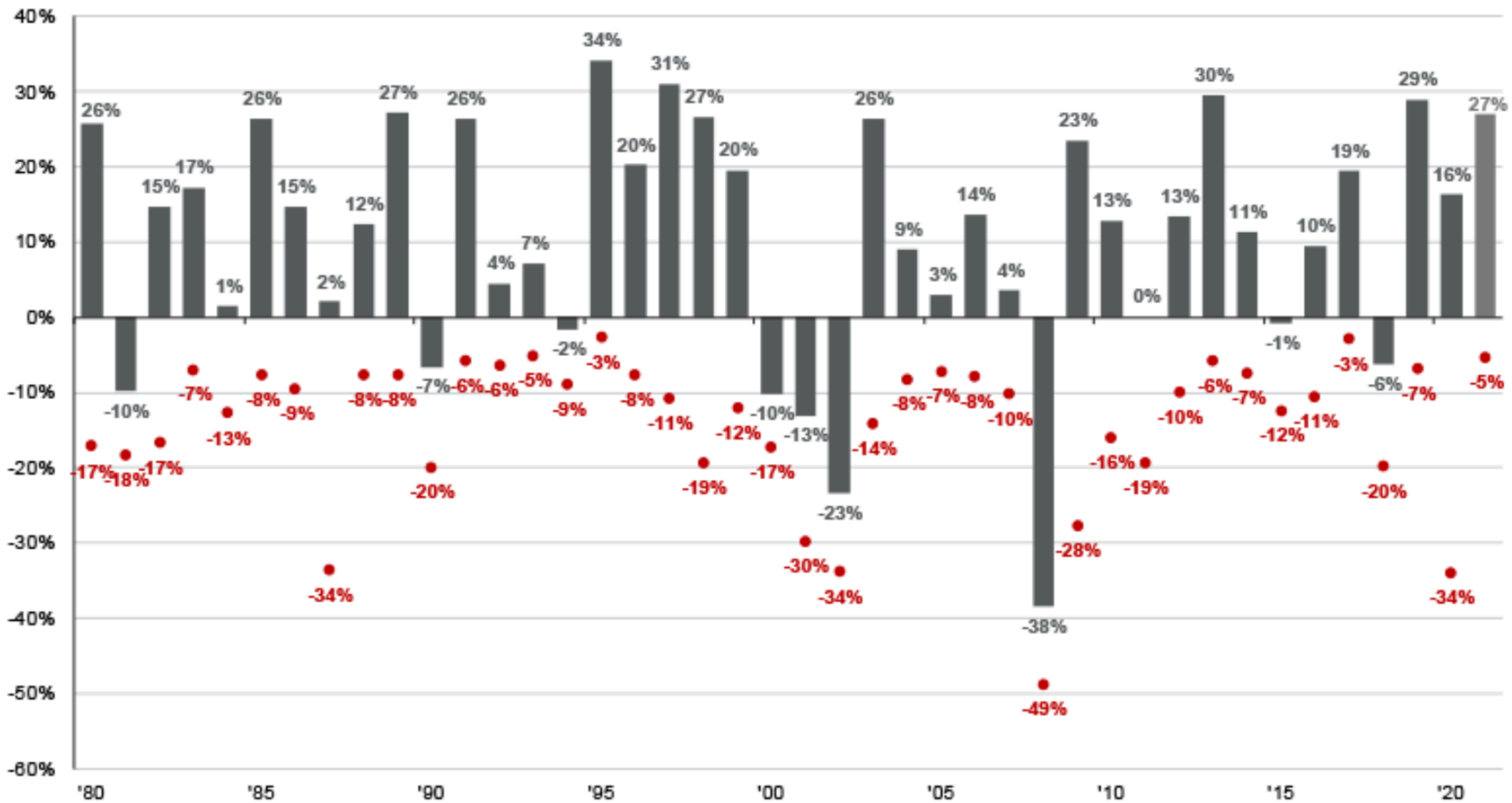
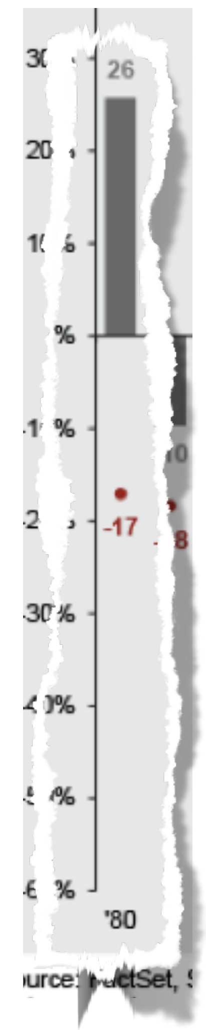
Largest decline in each year (Red Dot)

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years





For example: In1980 (far left)the return for the stock market for the entire year was **+26%** (gray bar)

Yet in1980 the stock market had a **-17%** decline from the high during that year. (Red Dot)

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of December 31, 2019. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%.

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What is the average correction since 1980?

Since 1980 the average stock market correction per year has been **14%**.

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of December 31, 2019. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%.

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Will the market get worse?

Since 1980*:

- 10% declines proceed to 15% or greater (aka: got WORSE) = **31%** of the time.

- 10% declines proceed to 20% or greater (aka: got MUCH WORSE) = **16%** of the time.

*Source: Factset: Using the S&P 500 Index data.

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Will the market get worse?

Standard & Poor's 500 Composite Index (1948–2017)

	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency	About 3 times a year	About once a year	About once every 3.5 years	About once every 6.3 years
Length (days)	46 days	117 days	275 days	425 days

Sources: RIMES, Standard & Poor's. Assumes 50% recovery of lost value. Length measures market high to market low.

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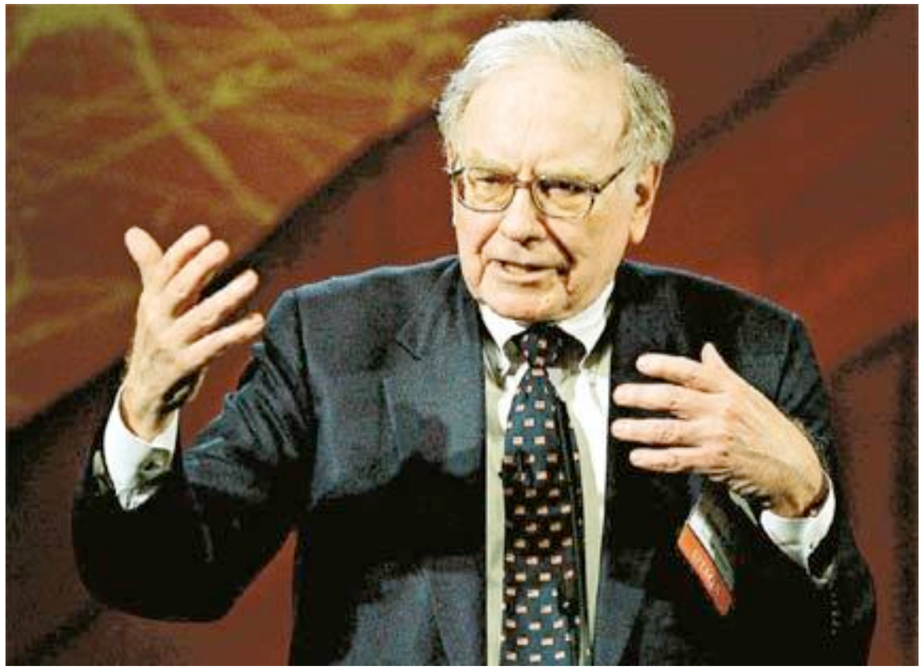
What does it all mean?

"The takeaway is confirmation of what should be common knowledge for long-term investors, but common knowledge is often worth repeating.

By owning stocks you understand and expect that a 10% decline from the 52-week high is likely multiple times per year, and that those declines need to be taken in stride"

-Warren Buffett



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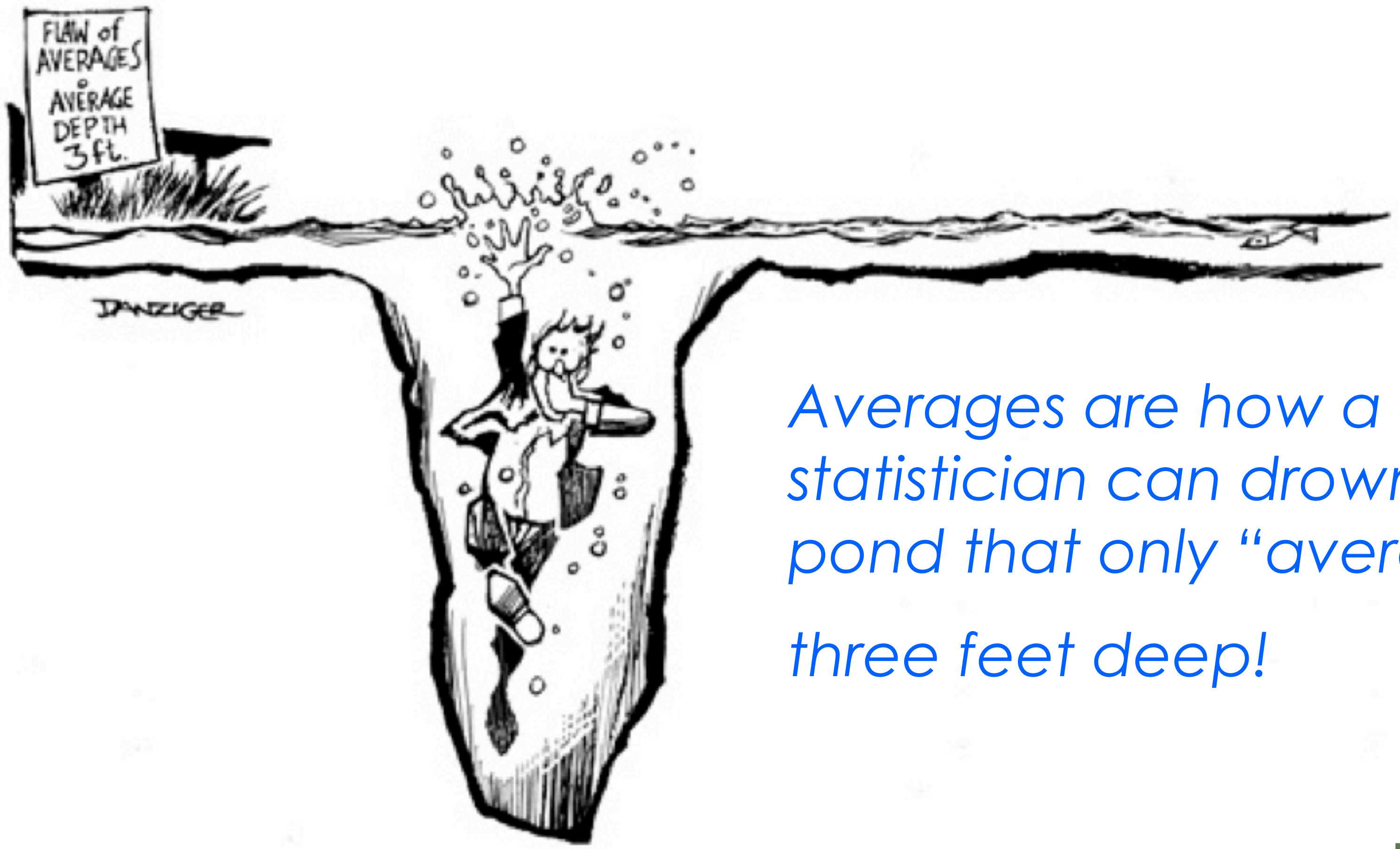
Warning: Flaw of Averages

Averages (and statistics) provide helpful reference points but beware their limitations…

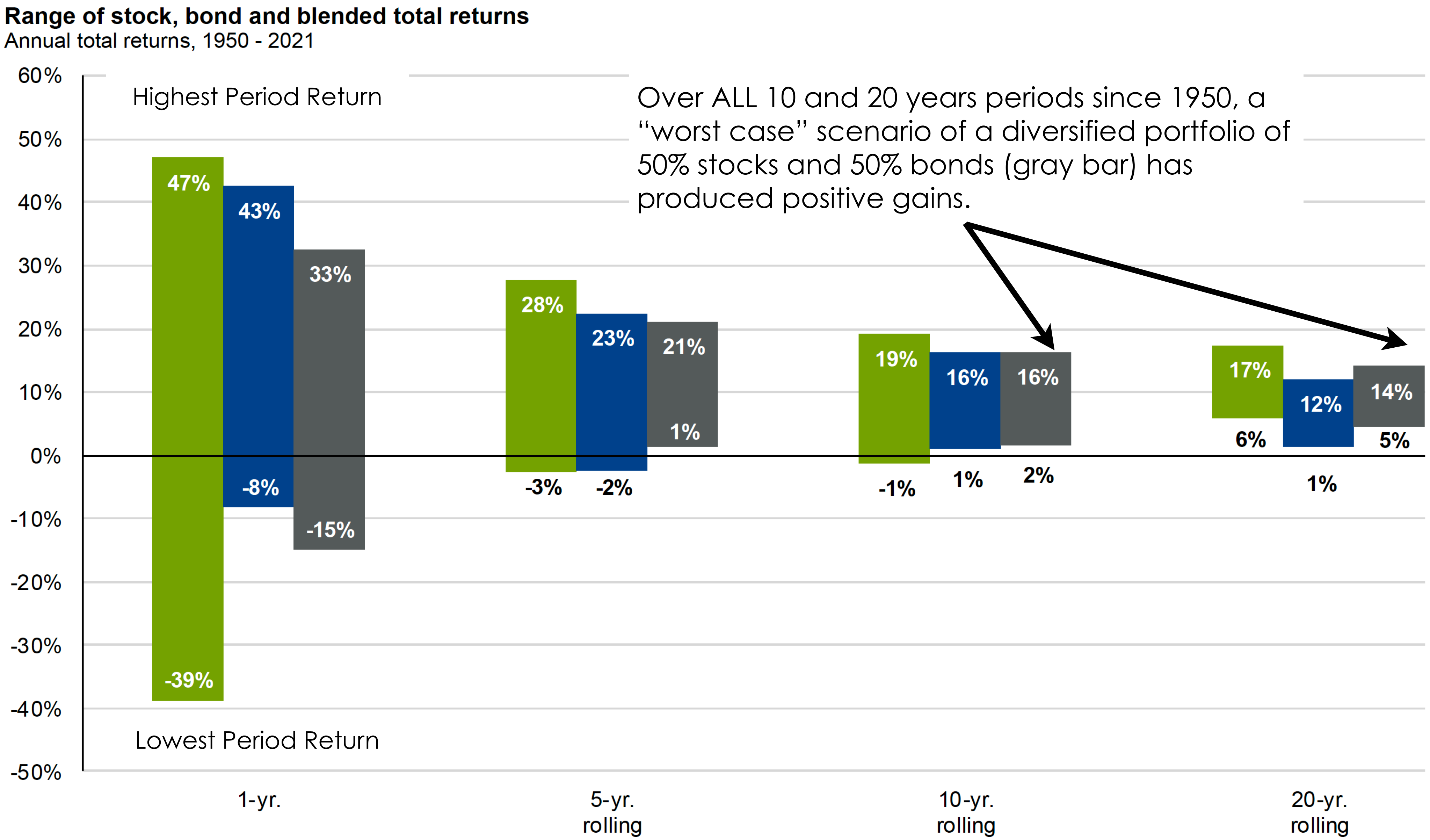


Averages are how a 6ft tall statistician can drown in a pond that only "averages"

three feet deep!

Source: Cartoon Stock

Do Corrections Effect Long Term Goals?



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas / Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2019. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter.

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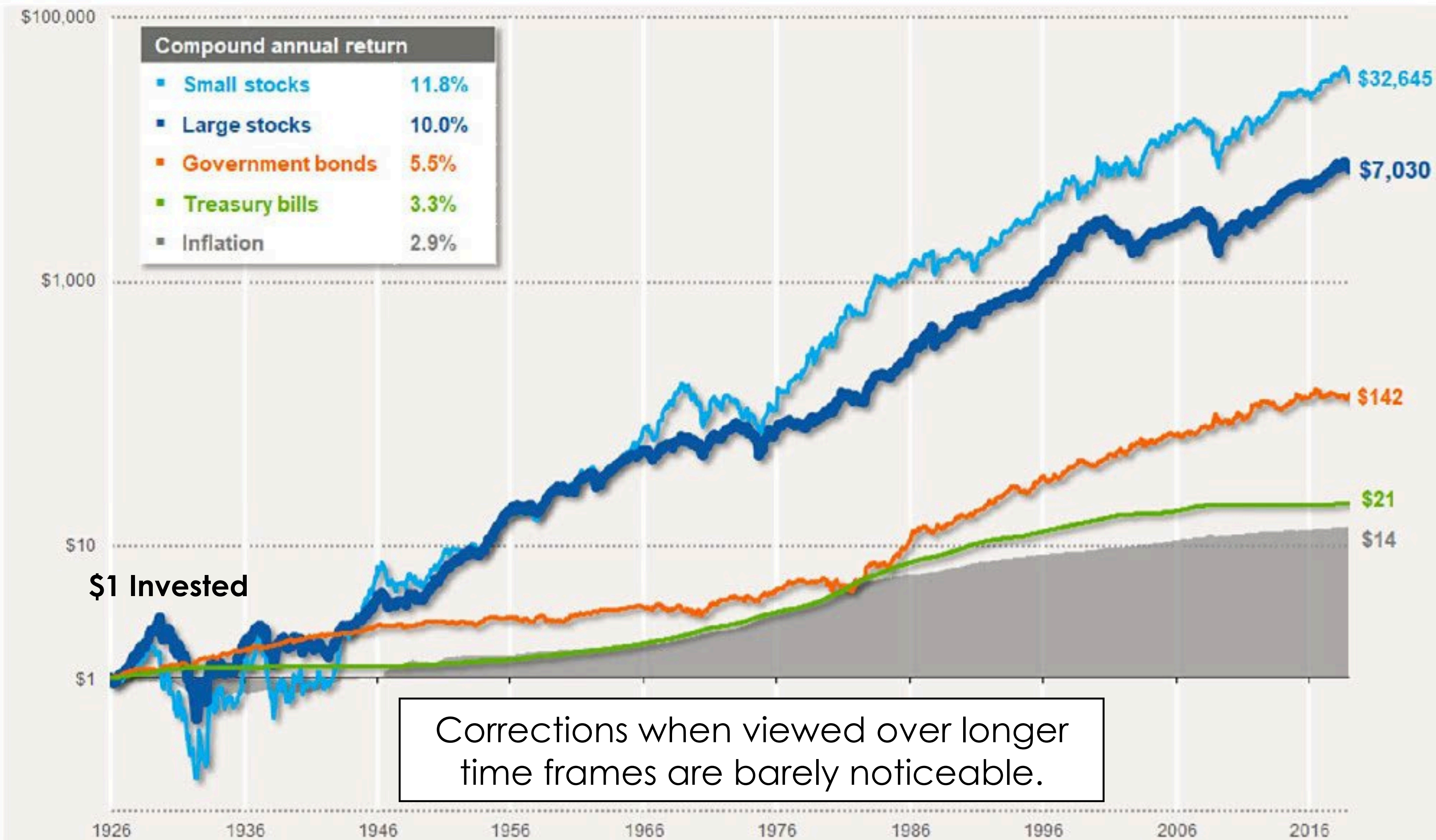
Long Term Returns of Stocks and Bonds



Source: Ibbotson SBBI. Returns are based on price index only and do not include dividends. For illustrative purposes only. Returns shown are calendar year returns from 1926 to 2018.

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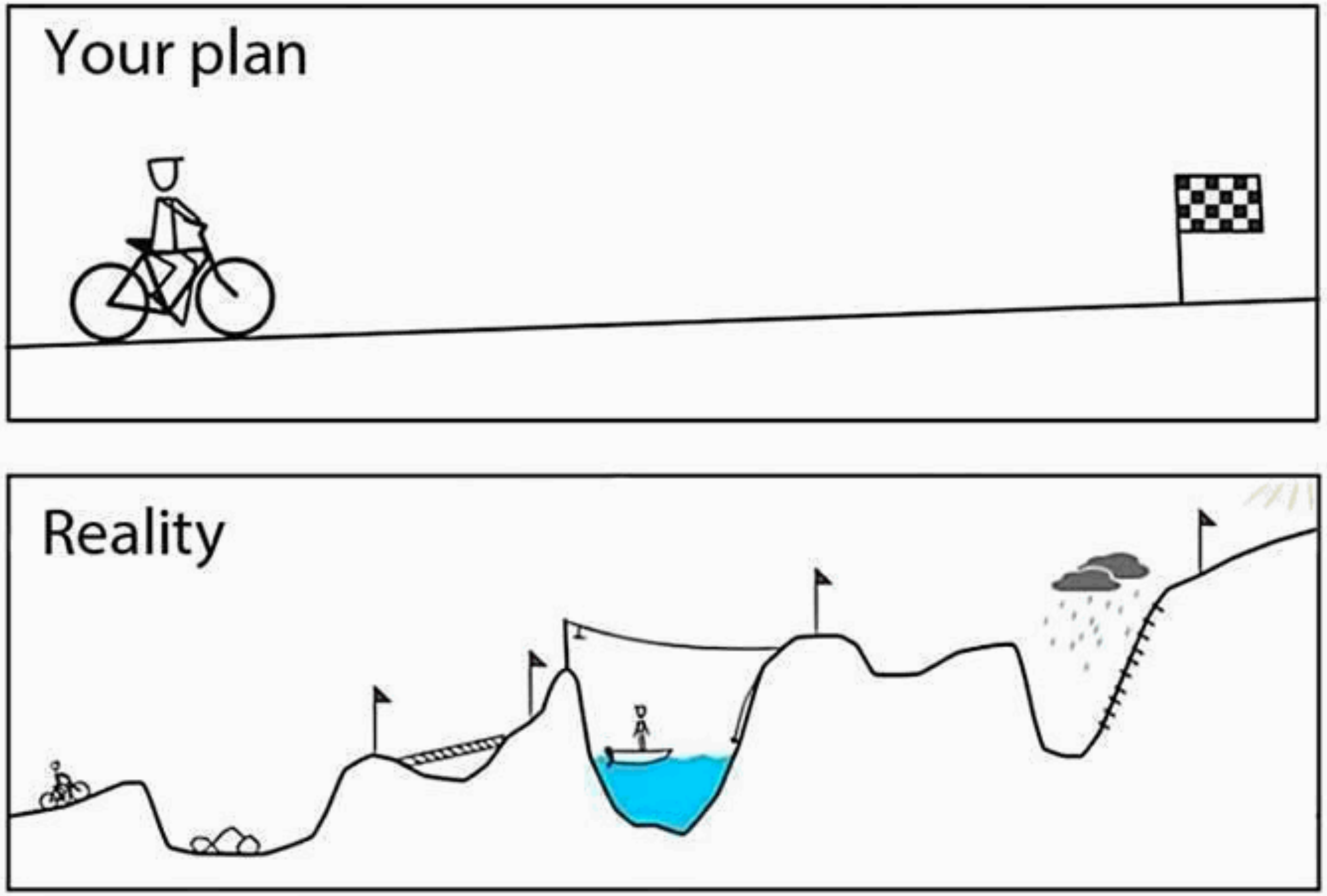

Source: www.awealthofcommonsense.com

“Could you say that again in words I actually know?”

Source: Cartoon Stock

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In English

- ✓ Over the long term stocks have produced superior returns over other assets including bonds.
- ✓ The reason for the superior returns is that they entail more price volatility over other assets.
- ✓ Corrections happen *approximately* every 12-18 months. They are a normal part of investing.
- ✓ While painful at times, corrections happen, and historically have been temporary.
- ✓ Having and reviewing a financial plan is the primary determinant of long term success.

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Thank You!

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