Stock Market Corrections

Oakwood FINANCIAL ADVISORS

Markets Fall

A question that regularly occurs at client reviews is the topic of a Stock Market Fall. Bad news travels and eventually *"pessimists"* will get it right sometime.

However, for those with a plan - the patient, disciplined, goal-focused, long-term investor – market slumps tend not to be an issue.

Market Correction is inevitable

All stock market corrections in our lifetime - and long before - have been temporary. So have all of the economic recessions, as have all the bear markets in stocks. They have all been temporary setbacks, and each has given way in time to the resumption of a major long-term uptrend.

The US market Experience

Let's look in isolation at the US index – the Standard & Poors 500 - during the 70 years 1946-2016. There were 57 stock market corrections. These are usually defined as declines in the S&P 500 Index of ten percent or more. That's an average of about one every fifteen months.

Average decline lasts 11 months

During the same period, there have been eleven economic recessions, usually defined as a decline in U.S. GDP lasting for at least two calendar quarters. That's an average of about one every six and a half years. The average time the economy was in decline during these recessions was 11 months; the average contraction was 2.3% of GDP.

Another way of looking at this is to consider that there were 840 months in the 70 years under discussion, and that the economy was in recession for almost 120 of them, or 14% of the time. The other 86% of the time, the economy was growing, as indeed it is at the moment.

An increase of over 150 times

During these 70 years, when stocks were correcting 57 times, and experiencing 14 bear markets, the S&P 500 Index went from 15 to 2,240, an increase of over 150 times.

S& P 500 - 10.72% p.a. Return on Investment

What can be learned from the above, is that over these 70 years, if an equity investor stayed focused on the long-term trends they enjoyed an average annual return of **10.72%.**

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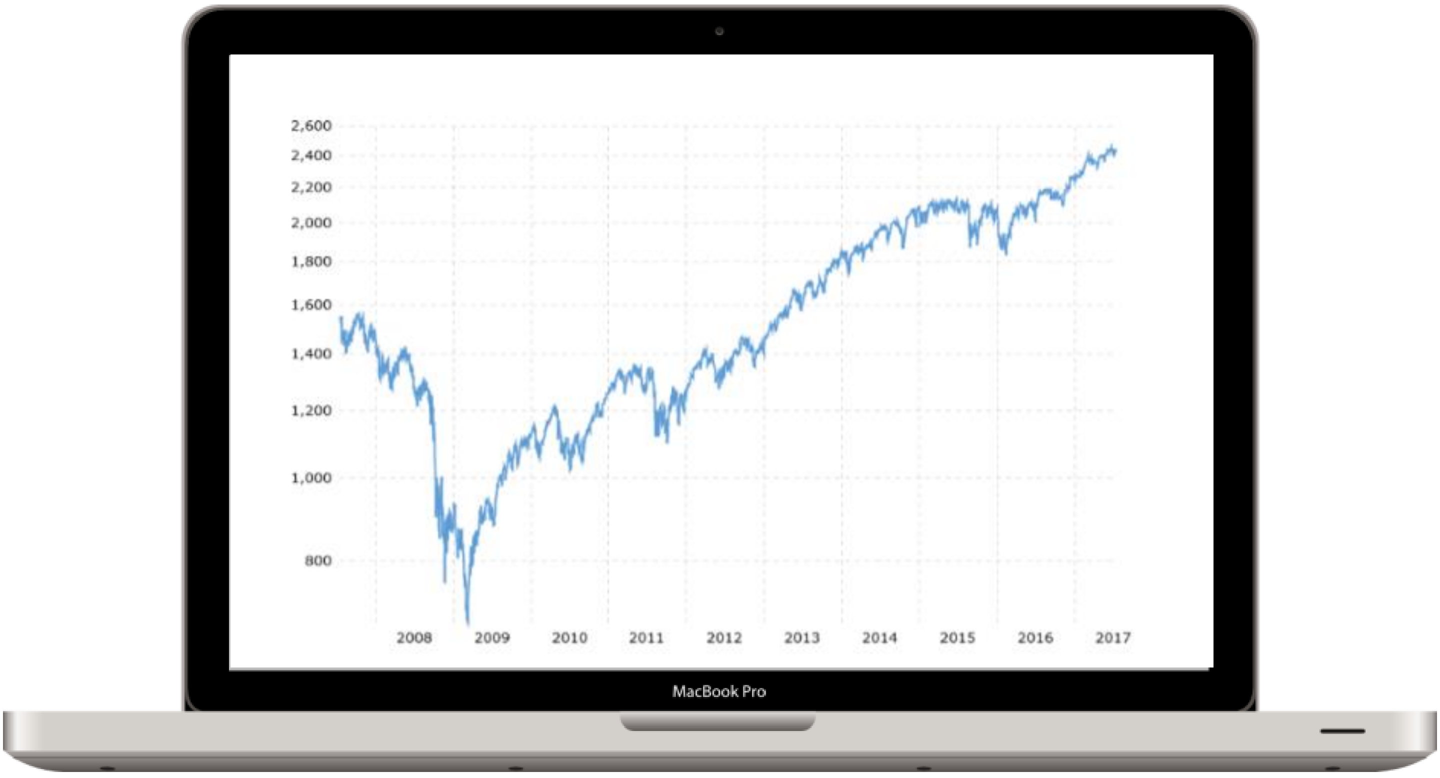
S&P 500 – 2008 to 2017



Market Dip
As a more recent example of market dips and recoveries we can look at the S&P 500 index (the S&P 500 index has became synonymous with the term "U.S. stock market").

220% recovery
In 2008 the S&P 500 fell 38.49% ***its worst ever yearly percentage loss*** (in September 2008, Lehman Brothers collapsed as the financial crisis spread). To the end of June 2017, it has had a recovery of over 220%.