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How Successful Investors Navigated The Last 57 Market Corrections

IF YOU DEFINE A STOCK MARKET "correction" as most people do—that is, as a decline in the Standard & Poor's 500-Stock Index (ignoring dividends) of at least ten percent, then in the 71 years from the beginning of 1946 through the end of 2016 there were 57 of them.

That's about one every fifteen months.

There are a couple of interesting number sets around the history of these 57 corrections that the patient, disciplined, goal-focused, long-term investor might want to be aware of. The first is that, despite market corrections that have come along with such frequency, the S&P 500 (still excluding dividends, just measuring by price) provided a positive return in 50 of the 71 years under consideration. (All these are S&P's statistics, and they ought to know.)

That's a bunch of disparate numbers, but I'm hoping you can see something of a pattern emerging here. To wit, the equity market must have been importantly resilient lo these seven decades past to have been able to shake off corrections relatively quickly, to the point where its value advanced in 50 of 71 (or 70% of) calendar years.

Even more important—and probably easier to understand—is the second number set to which I referred a moment ago. It is that the Index came into 1946 at about 15, and went out of 2016 at 2,240. That is —***still taking no account of dividends***—the Index went up around 150 times ***in the process of overcoming 57 corrections.*** This, to me, is resilience on steroids.

And yet **I** cannot pick up a newspaper or turn on the television this summer without someone telling me we are overdue for a correction—as if that's supposed to frighten me, and as if I'm somehow supposed to try to do something about it. Heck, for all I know (or anybody else knows either), they may be right: we may be, in some strained statistical sense, overdue for a correction, inasmuch as the last one happened in January-February 2016. And that was...well, more than fifteen months ago.

Ah, but that's not the real issue, is it? The real issue is, given that corrections have historically been quite frequent yet overall rather fleeting, ***what are we long-term investors supposed to do about them?***

At this point, two important problems rear their heads simultaneously. (1) We don't know when, or from what S&P price level, the correction will start. That is, we can't call the top. (No shame in this; no one has ever been able consistently to anticipate market tops.) (2) We don't know when, or at what price level, the correction will blow itself out. That is, we can't call the bottom. (No shame etc., etc.)

It appears, therefore, that we can't with any consistency get out of the market in advance of a correction, nor get back in just before a resumption of the advance. This is, or certainly ought to be, a very sobering realization, particularly when we remember that the overall trend across the last 57 corrections increased the S&P 500's value 150 times.

How, then, did generations of patient, disciplined, goal-focused, long-term investors navigate

these 57 corrections? I hope the answer will by this time be intuitively obvious to you: *they didn't. **They simply rode them out.*** They decided that they could not, in all probability, gain an advantage over the market by guessing at its interim peaks and troughs.

And in the past they've certainly been well rewarded for doing so. With full dividend reinvestment, the S&P's return compounded at about 10.7% in these 71 years—seven percentage points above the CPI inflation rate, which the Wharton scholar Jeremy Siegel maintains has been par for the course going all the way back to Thomas Jefferson's presidency.

Next time you hear some pundit calling for a correction, and you feel your trigger finger getting itchy, check in with your financial advisor, who will—I predict with something approaching 100% certainty—advise against it. In the meantime, you'll want to remember this wonderful (and wonderfully true) quote from Peter Lynch:

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

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Life isn't about waiting for the storms to pass. It's about learning to dance in the rain.
- Vivian Greene

During a busy day of shopping, a woman didn't realize she'd lost her purse until a little boy ran up to her and returned it.

"Hey lady," he said, "You left this over by the towels."

"Well, aren't you a little prince," the woman replied as she touched the youngster's cheek. "Hey, wait a minute," she said, "I had a fifty dollar bill in my purse. Now I have two twenties and a bunch of singles."

"That's right," the boy replied. "The last time I found a purse the lady didn't have any change for the reward."

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