What the Market Correction Means for Your Investments

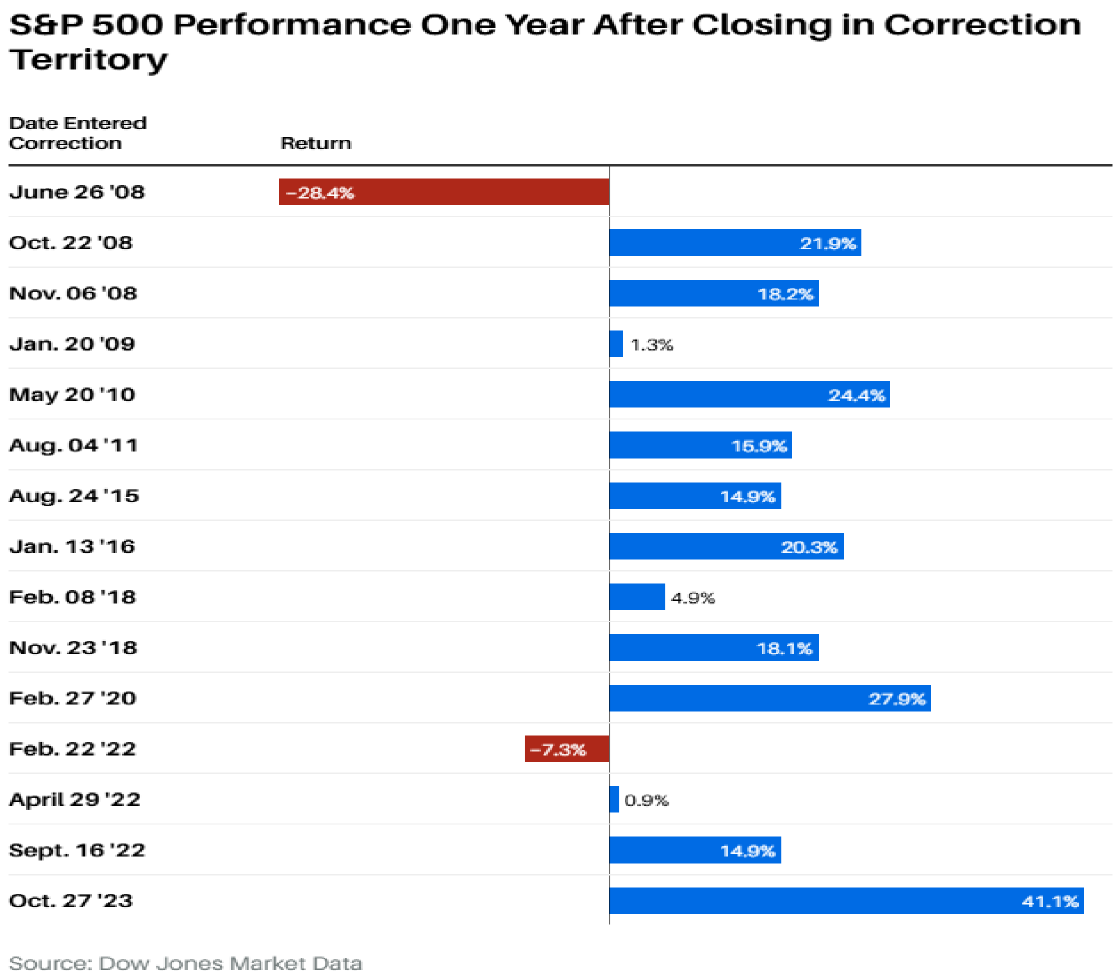
Presented by Clear Path Private Wealth

As of the end of trading on Thursday, March 13, the S&P 500 dropped by 10 percent from its all-time high, officially marking a market correction. This was the first correction since October 2023—17 months ago. While this may sound concerning, it's worth noting that even with an 8 percent drop in 2024, the market still ended up 24 percent and 23 percent in 2023 and 2024, respectively. Of course, past performance does not guarantee future results.

This recent correction happened quickly, lasting just 16 trading days. In fact, it was the fastest since the market dropped 10 percent in just 6 days at the start of the global pandemic.

What History Tells Us About Market Corrections

Market downturns always bring uncertainty, and emotions can run high during these periods. But looking at past market corrections can give us some insight. While no two market events are exactly the same, history shows that these drops are often followed by opportunities for growth.



One-year returns following the last 15 market corrections (spanning 17 years) show that corrections can be buying opportunities for long-term investors. Even during challenging periods like:

- **The 2008–2009 Financial Crisis:** Despite scary headlines and daily stress, most one-year returns following corrections were positive.
- **The 2022 Inflation Period:** When inflation peaked at 9.1 percent, markets initially declined but then recovered, leading to two consecutive years with returns of more than 20 percent.
- **The 2020 Pandemic:** This severe but short-lived selloff was followed by a recovery.

Is This Time Different?

During every market decline, investors wonder if “this time is different.” While the specific causes change, market behavior tends to follow familiar patterns. Selloffs are typically driven by concerns about future economic growth.

The 2018 trade war offers some potential lessons for today:

- Markets experienced volatility around tariff announcements with rallies in between.
- The biggest drops came from cumulative effects of multiple tariff implementation announcements.
- The Federal Reserve’s interest rate hikes significantly impacted market movement—an element that is not currently at play today.
- Volatility persisted until clear resolutions emerged.

Key takeaways that may apply today: expect continued volatility, recognize that economic negotiations take time, and remember that interest rate policies matter.

Source: MUFG Securities

What Should You Do as a Long-Term Investor?

It’s normal to feel anxious during market downturns, but it’s important to remember that timing the market is nearly impossible. No one predicted the market bottom during the 2008 financial crisis or the 2020 pandemic, and trying to do so can lead to missed opportunities.

Here's what you can focus on to stay on track with your long-term financial goals:

1. **Rebalance Your Portfolio**: If market changes have caused your investments to get out of balance, it's a good idea to adjust them back to your intended allocation. This ensures your investments align with your long-term goals and helps keep risk levels in check.

2. **Consider Dollar-Cost Averaging**: The best time to invest can be when it feels most uncomfortable. Setting up a regular schedule to invest (weekly, monthly, or quarterly) removes emotion from the decision and avoids the impossible task of trying to time the market perfectly.

3. **Use the Bucket Strategy**: If you have different financial goals with varying time frames, consider organizing your investments into "buckets" based on when you'll need the money:
   - Short-term needs (1–2 years): More conservative, lower-risk investments that are less likely to be affected by market fluctuations
   - Medium-term goals (3–5 years): Balanced approach to help grow your money while managing risk
   - Long-term growth (5+ years): Growth-oriented investments that have the potential to grow significantly over time, even with occasional market ups and downs

   This strategy helps you manage short-term volatility while allowing your long-term investments an opportunity to grow and recover from any downturns.

4. **Stay Diversified**: A well-balanced portfolio, spread across different types of investments, can help you weather market ups and downs. Diversifying between asset classes (stocks, bonds, real estate, etc.), market sizes, and geographic regions can provide more stability. In fact, parts of the market that have been underperforming in recent years, such as health care, energy, and real estate, have done well during this correction. International markets have also outperformed U.S. markets during this period, and bonds have once again offered stronger portfolio diversification potential.

Remember that market declines, while uncomfortable, are a normal part of investing. Staying focused on your long-term financial goals rather than short-term market movements is typically the wisest approach.

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