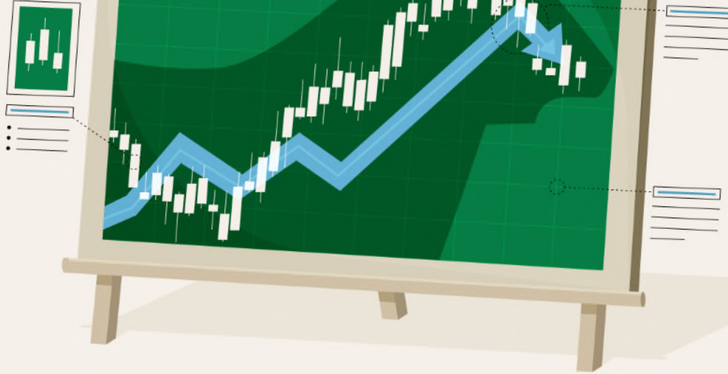
THE

ANATOMY OF A MARKET CORRECTION



Bull markets are rarely straightforward.

WHY DO CORRECTIONS HAPPEN?

Corrections can happen for any reason—and sometimes they happen for seemingly no reason at all.

https://www.visualcapitalist.com/anatomy-market-correction/

Todd Kennedy, CIM, FCSI
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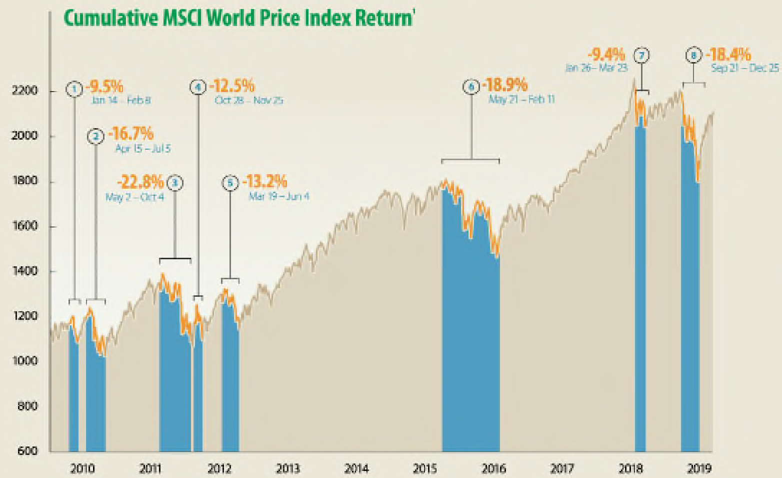

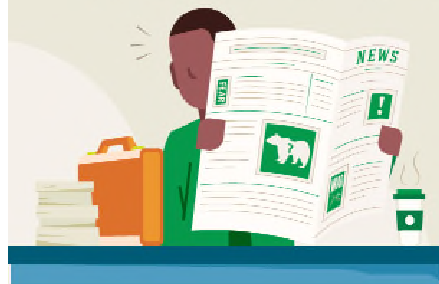

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Market corrections are an inevitable part of owning stocks, and they can make even the most seasoned investors extremely nervous.

Here is what an average correction looks like:

① **Frequency**
On average, there is about **one correction per year**[2]

② **Length**
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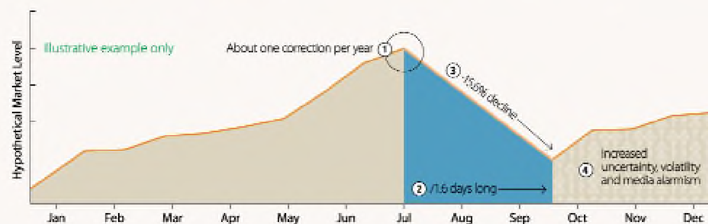

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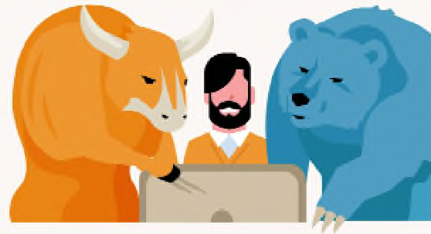

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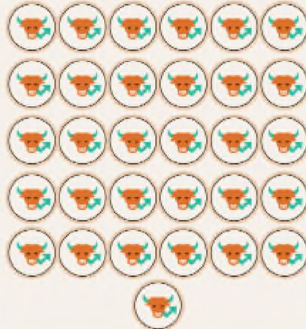

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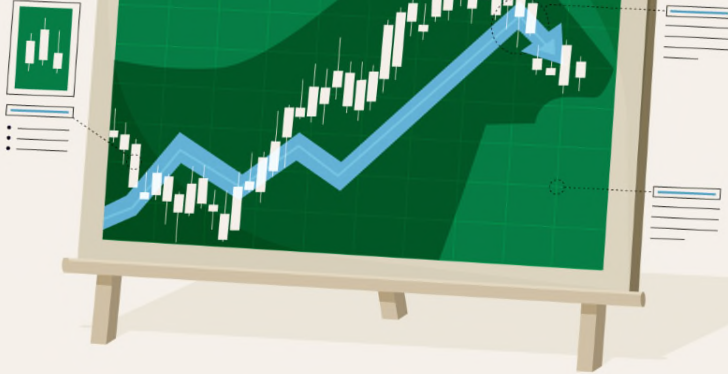

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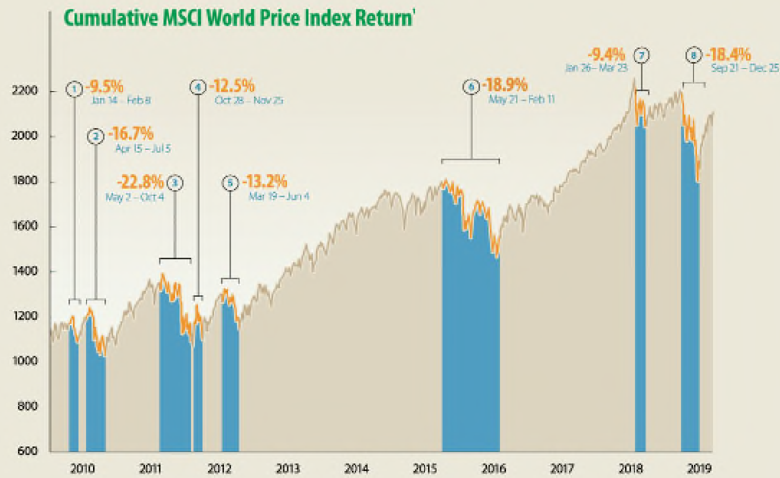

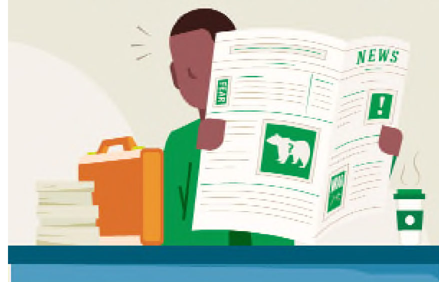

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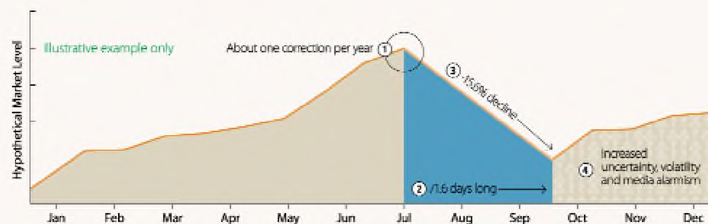

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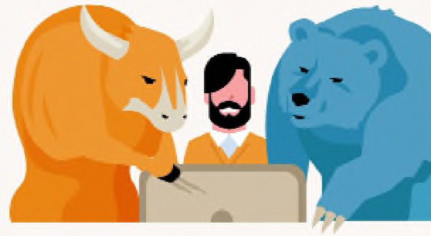

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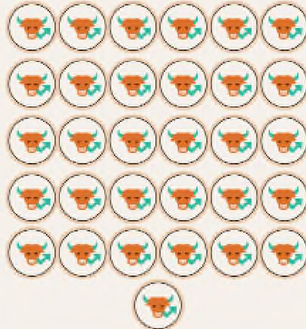

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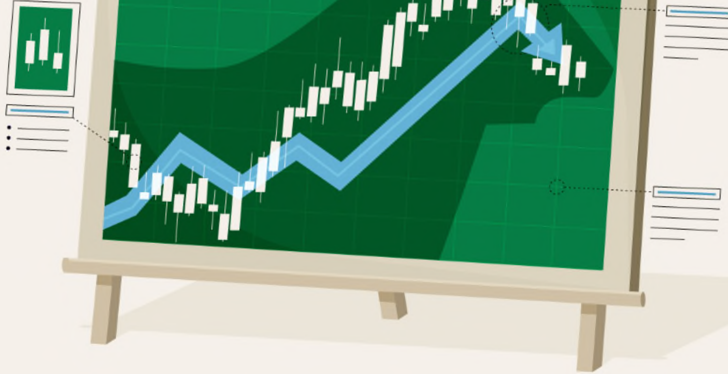

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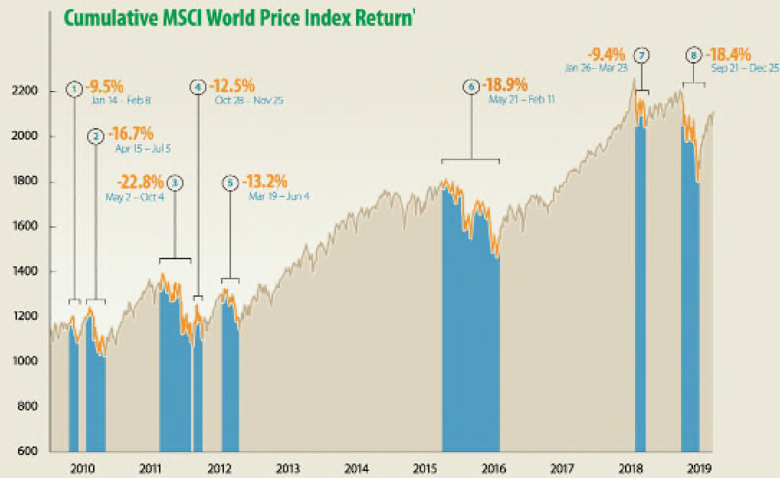

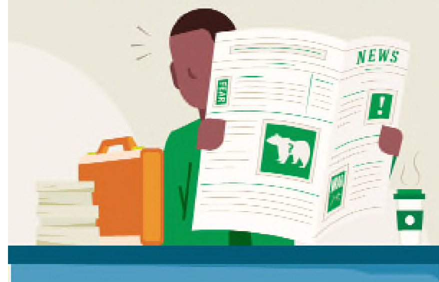

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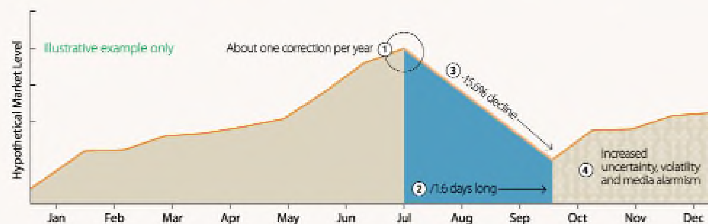

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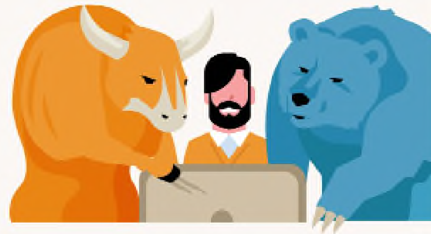

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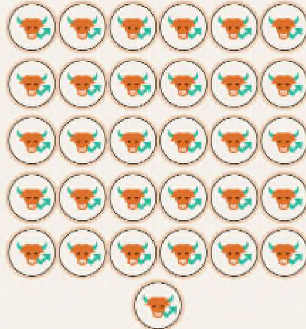

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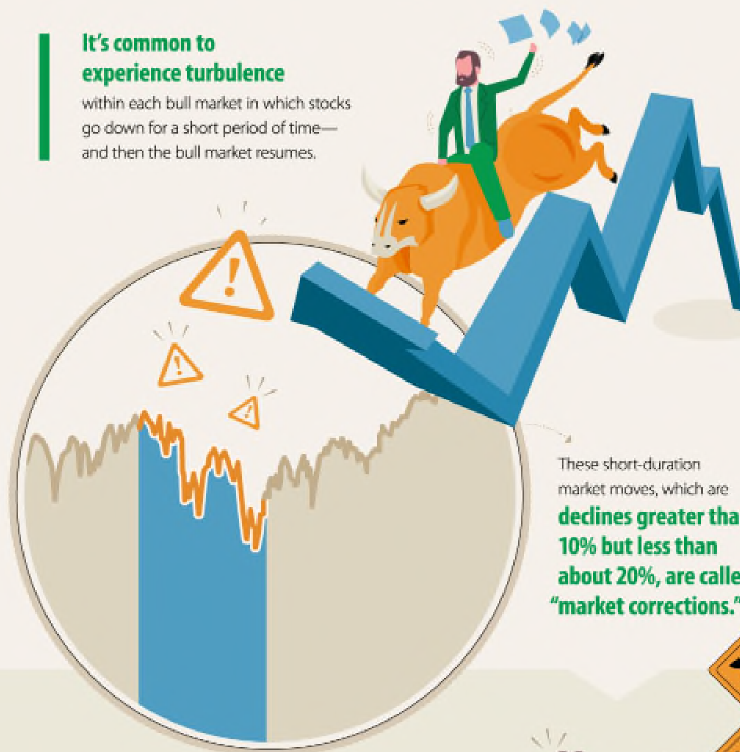

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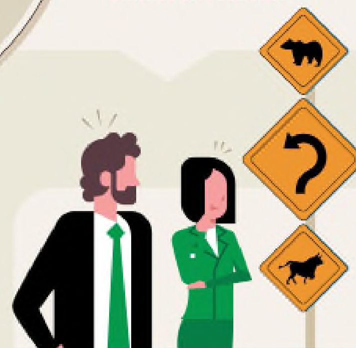

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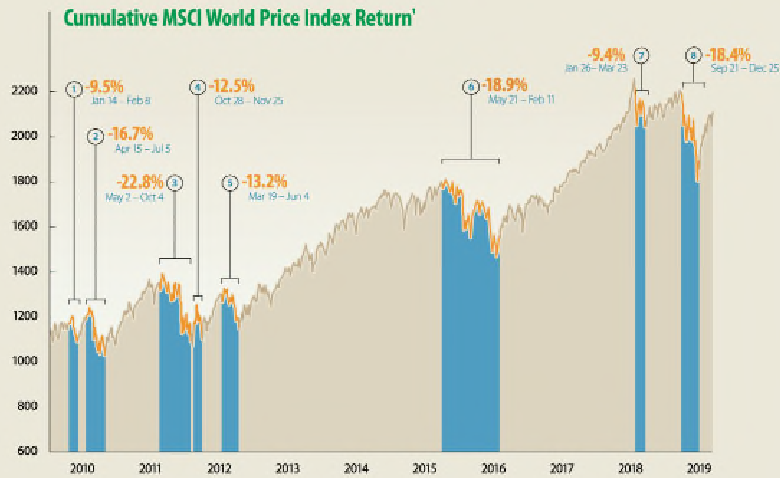

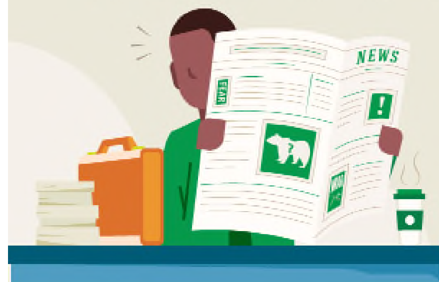

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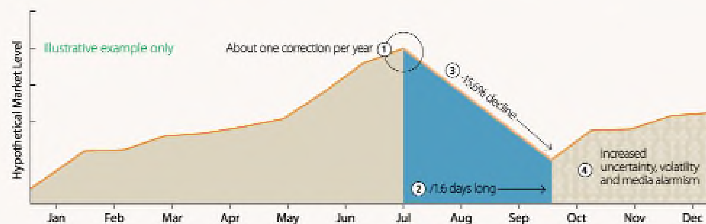

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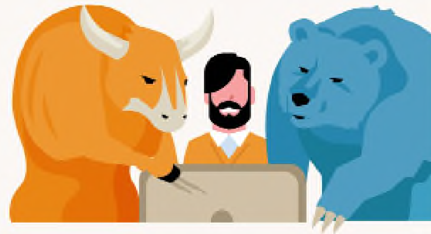

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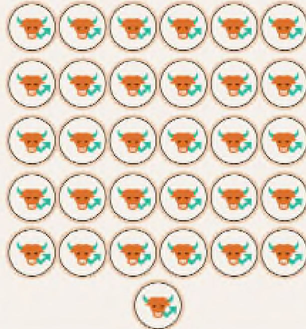

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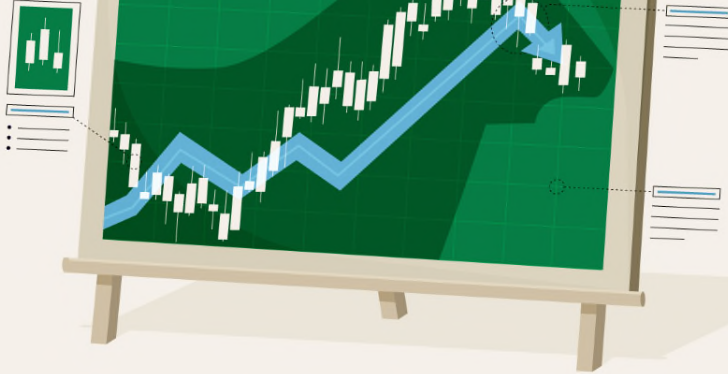

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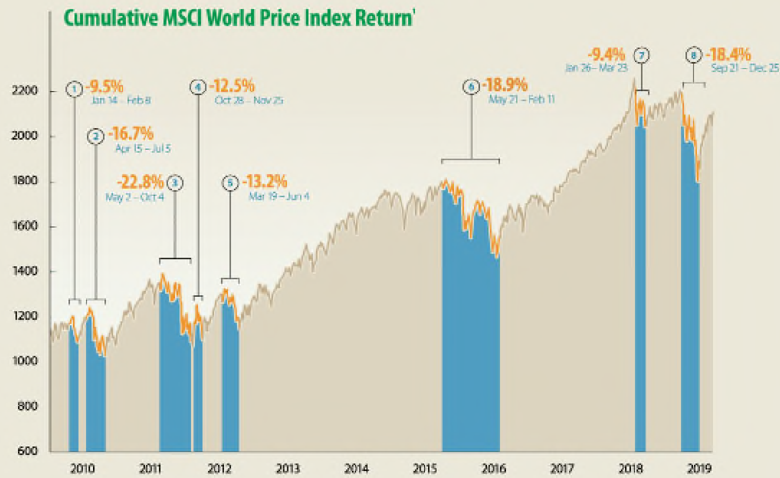

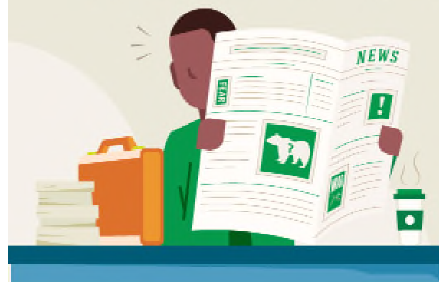

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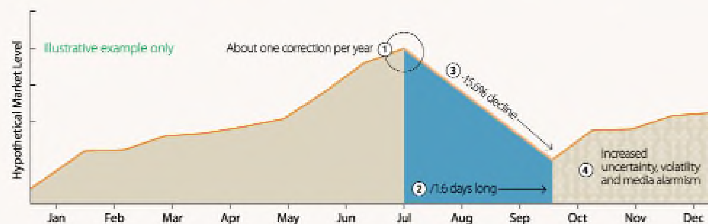

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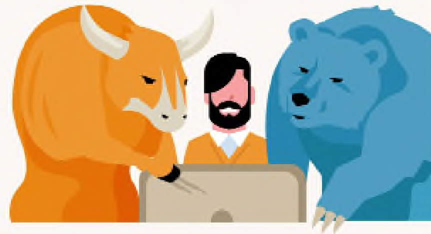

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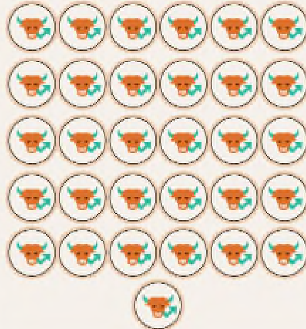

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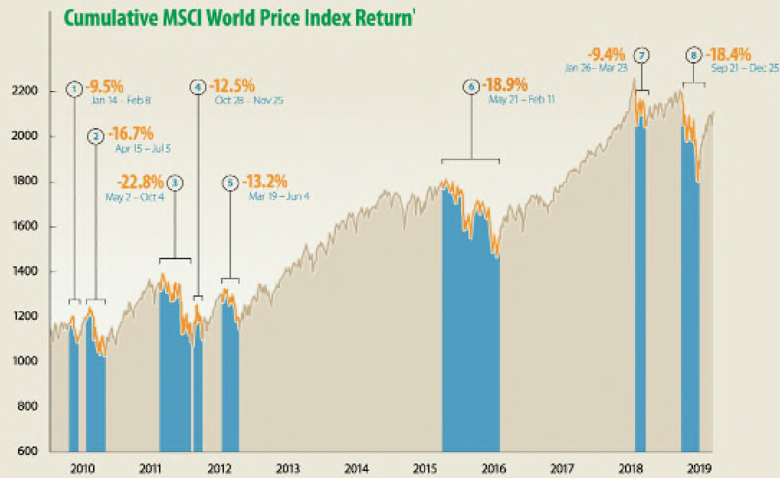

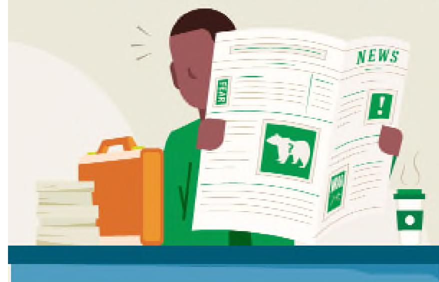

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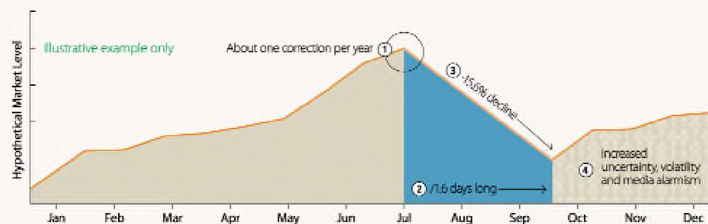

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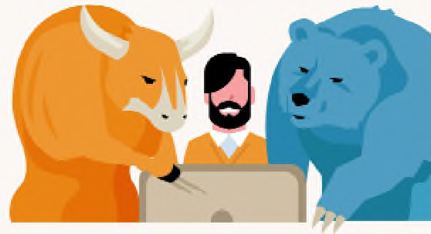

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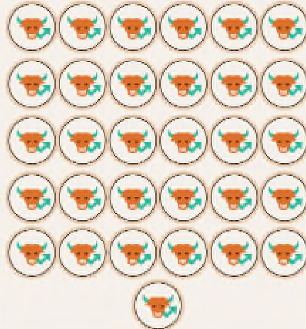

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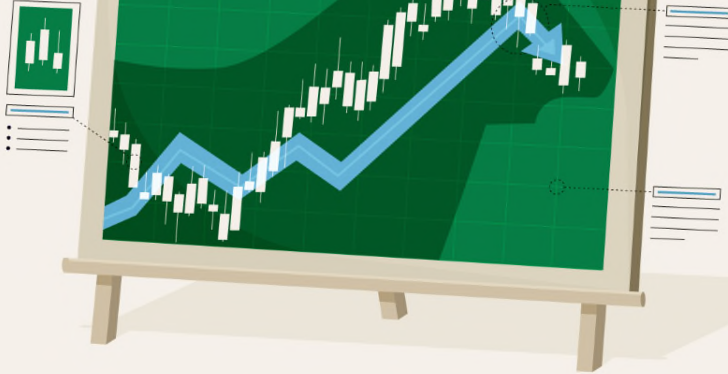

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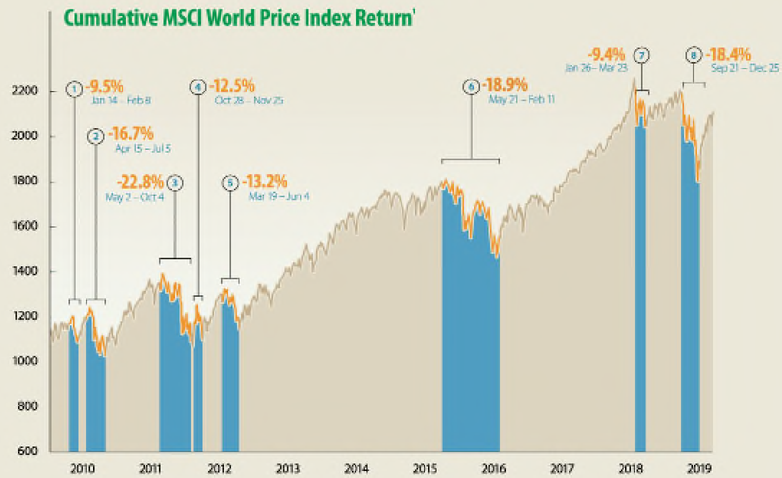

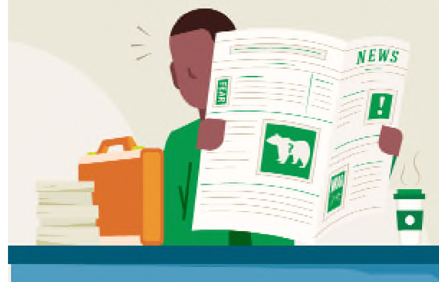

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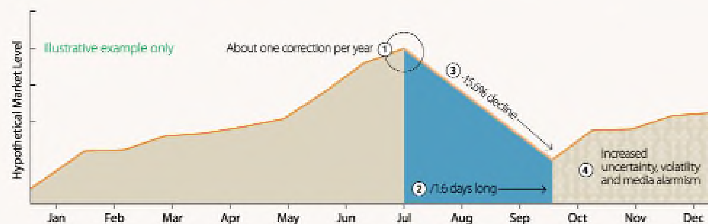

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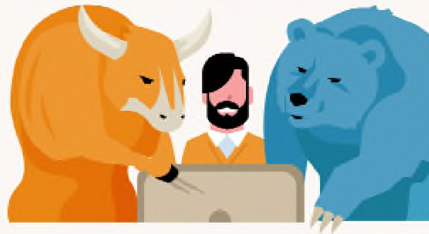

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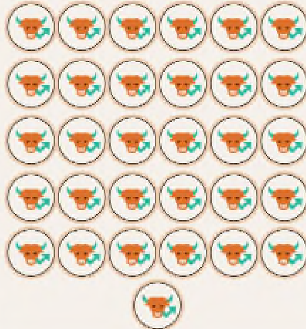

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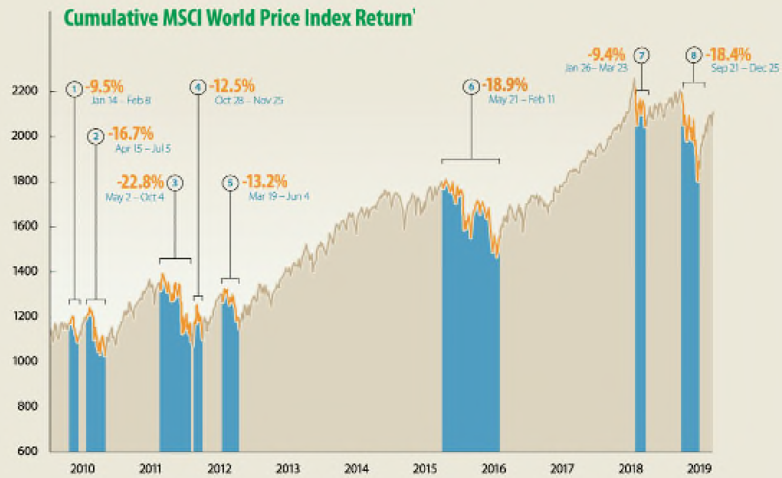

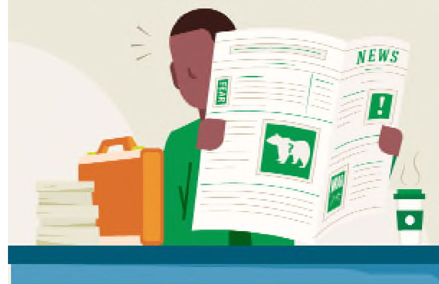

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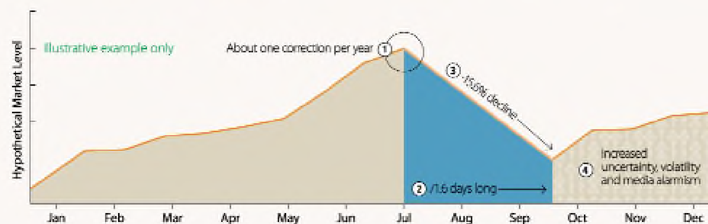

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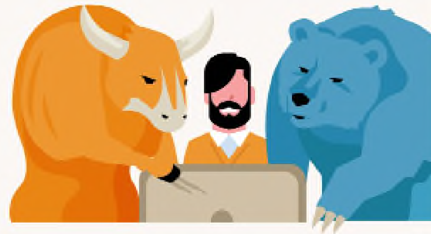

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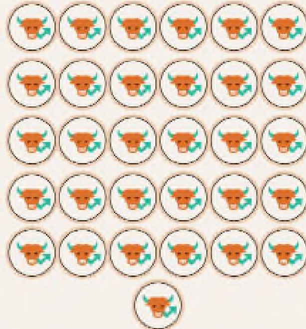

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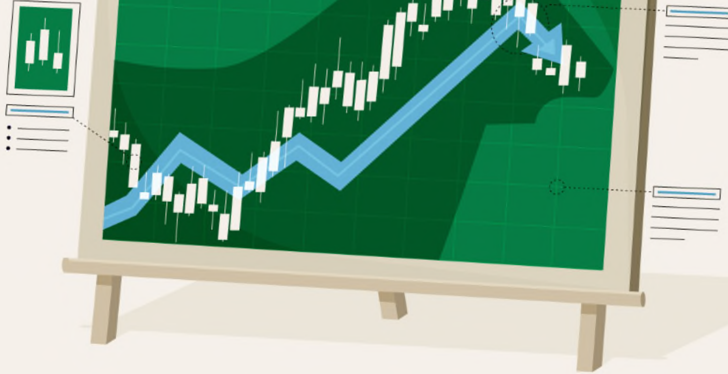

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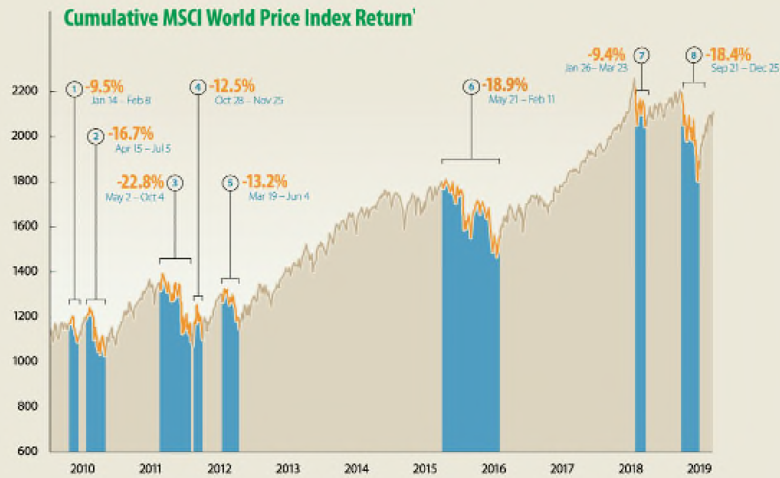

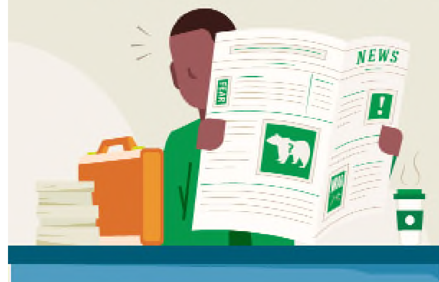

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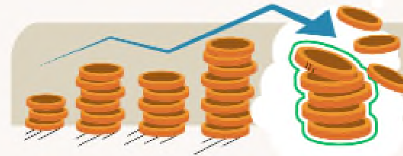

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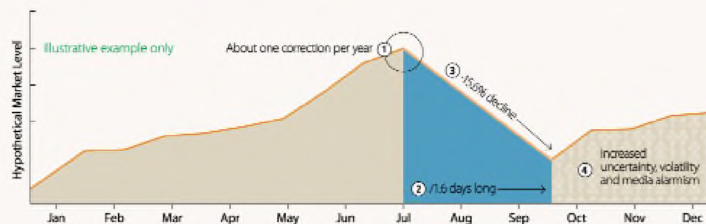

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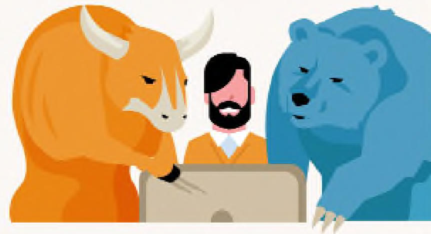

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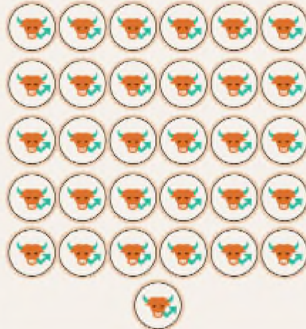

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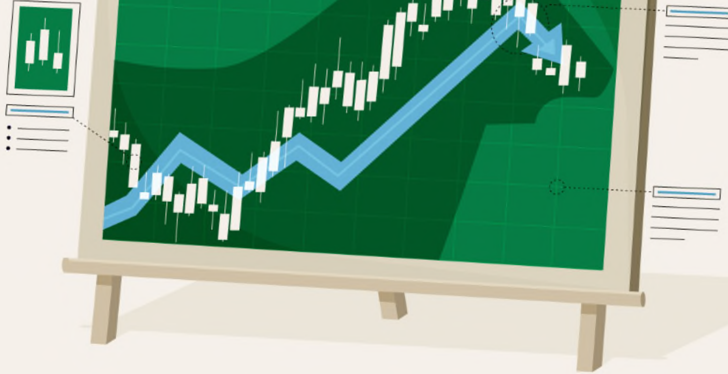

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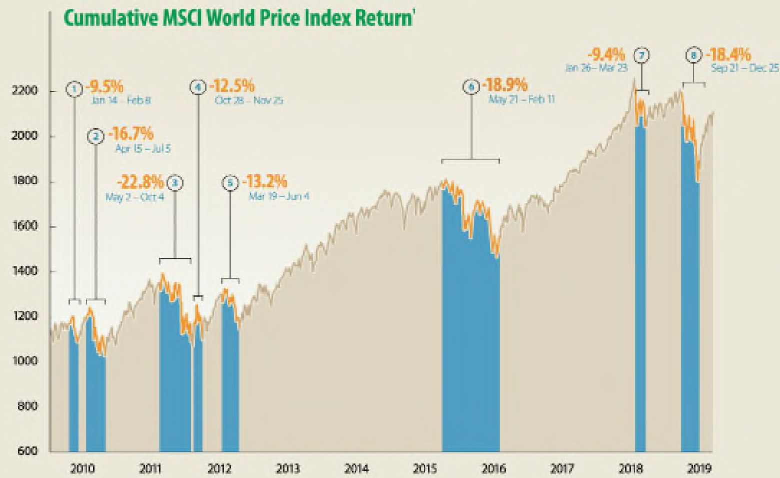

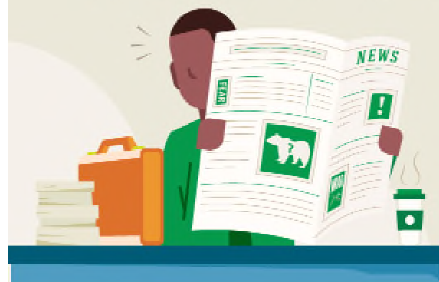

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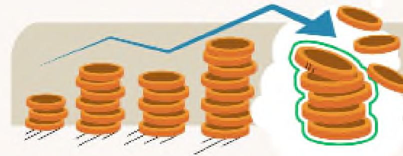

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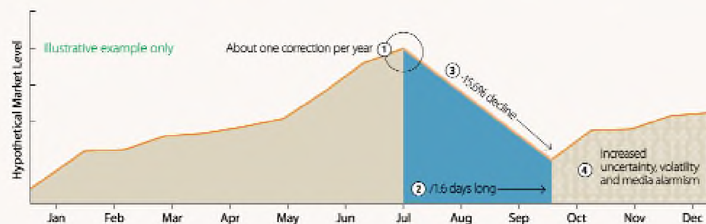

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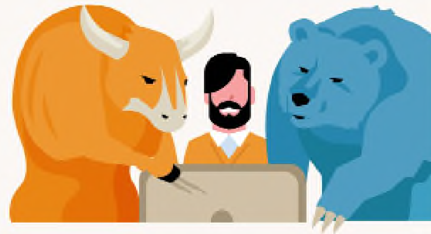

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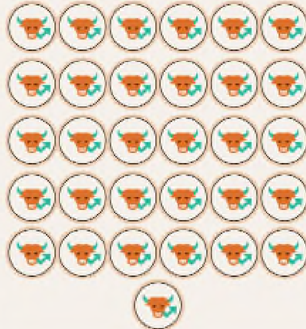

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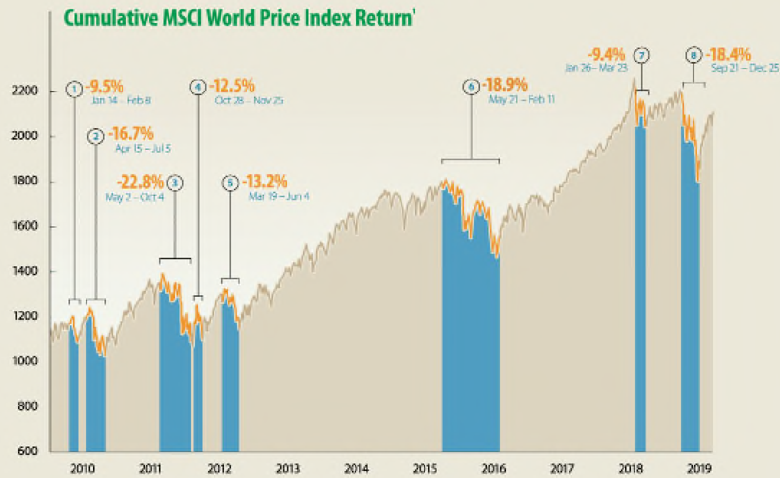

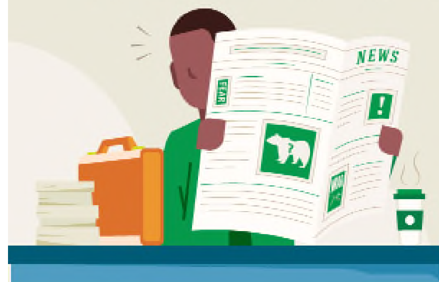

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WHAT TO EXPECT?

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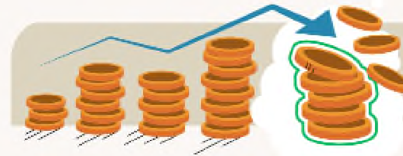


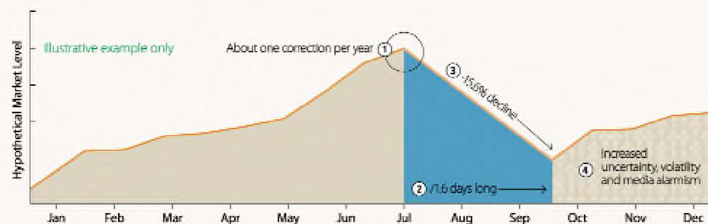
Here is what an average correction looks like:

① **Frequency** On average, there is about **one correction per year**[2]

② **Length** The average length of a correction is **71.6 days**[2]

③ **Depth** The average correction involves **a decline in stocks of about 15.6%**[2]

④ **Impact**
- Increased uncertainty
- Increased volatility
- Increased media alarmism

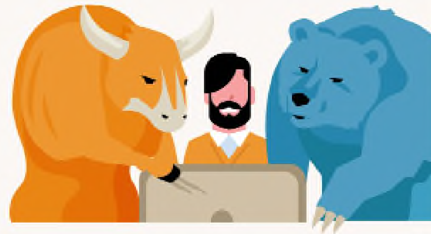


But individual corrections can vary significantly from the average.

One of the reasons a correction can be so scary is investors may suspect that it's the beginning of an even steeper market decline: a bear market. Bear markets are fundamentally driven, sustained declines of about 20% or more.

A correction can prompt the question: is this the beginning of a prolonged market downturn, or is it an opportunity to buy stocks at cheaper prices?

BULL OR BEAR?



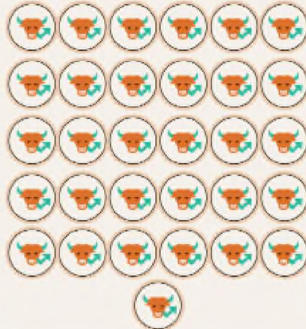
A correction provides a gut-check for investors, where they can re-evaluate their portfolios and their outlook for the future.

While the market frequently sees declines of about 10% or greater, that doesn't always mean a bear market is ahead:

Between 1980 – 2018, **the US market declined about 10% 36 times**[3] and...

...5 of these corrections resulted in longer bear markets.[4]

The other 31 transitioned relatively quickly back into bull markets.[4]



1980 2018

In other words, in recent history, **about 14% of corrections were the start of a prolonged downturn—but most are just blips on the radar.**

TIME IN THE MARKET

Is it worth trying to time these dips in the first place?

Research shows that market timing may be **less important than you might think.** Consider the following hypothetical example.

Starting in 1977 and for the following 40 years, three siblings invest $10,000 a year in global stocks.

JANE times the market perfectly, investing at the market low each year.

JACK invests on the first day of each year.

JOHN has poor timing and invests at the market high each year.

Cumulative Ending Value of $10,000 Invested Each Year [5]

Ending Portfolio Value

JANE (Perfect Timing) $4,346,606

JACK (No Timing) $4,116,567

JOHN (Poor Timing) $3,568,515

*Returns are money-weighted meaning they incorporate the size and timing of cash flows and place a greater weight on the performance in periods when the account size is largest.

Even with over 40 years of perfect timing, Jane only slightly beats Jack.

In the context of market corrections and even bear markets, it goes to show that time in the market is more important than trying to time the market.

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https://www.visualcapitalist.com/anatomy-market-correction/