In the Markets Now

Buying during selloffs

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

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WHAT TO DO WHEN THE MARKET CORRECTS

Recently, I've noticed that I'm guilty of giving conflicting advice. I often say that trying to perfectly time a market bottom during a selloff is difficult, and this is true. However, I've also used forward returns from past market bottoms to illustrate the often-robust rebounds seen after bouts of volatility. But what good is that data if actually calling the bottom is as hard as we've noted? While our intentions were pure (I promise), we figured we should address this discrepancy and instead look at a different set of data around market selloffs. And with the S&P 500 down well over 10% in 2022, we hope it's timely as well.

Our table here shows the dates on which past market selloffs became "corrections." That is to say, these are the dates on which the selloff officially breached the -10% threshold. We also show the forward returns from that date. The idea is that while the actual bottom is unknowable in advance, we can easily pick out the day that the market officially closes down 10%+. By choosing a metric that is knowable in real time (and doesn't require the gift of foresight), we could actually use this as an investing strategy going forward. And we may want to, because the results are quite promising: over the last fifty years, the average forward returns from a "correction" date are quite strong, featuring above-average performance over 1-, 3-, and 5-year stretches.

Now, there are caveats. Much of the red in the table is focused in a handful of timeframes that featured deep economic recessions—the 1970s stagflation, the dot-com bubble, and the Great Financial Crisis. Selloffs outside of recessions tend to be milder, shorter, and feature stronger bounces, while selloffs amidst recessions tend to be deeper and longer (though there are exceptions, like the early 1980s and 1990s). As of today, our partners at Strategas put the odds of a 2023 recession at 35%—not their base case, but an impossible-to-ignore number, especially given the challenging macro backdrop we face. At the very least, volatility is likely to remain elevated.

But of course, the main takeaway is the sea of green in our table. **Near-term volatility is difficult to endure, but a focus on the longer-term outcomes—and outperformance—can help keep our heads level in times of stress.** Our table displays just that. In the end, despite a few historic bear markets along the way, the market is up ~19,000% in the last 50 years and buying stocks on dips has been a rewarding strategy for the longer-term investor.

Date that a selloff became a correction (down -10%)	One year later	Three years later	Five years later
4/27/1973	-16%	-5%	-11%
12/3/1974	30%	41%	58%
8/8/1975	20%	21%	44%
5/25/1977	0%	14%	18%
10/26/1978	5%	23%	72%
10/25/1979	30%	33%	66%
3/10/1980	22%	44%	68%
8/24/1981	-8%	33%	99%
2/9/1984	17%	79%	90%
10/15/1987	-8%	2%	37%
1/30/1990	6%	36%	45%
8/17/1990	18%	38%	71%
10/27/1997	21%	57%	2%
8/14/1998	25%	12%	-7%
9/24/1999	13%	-36%	-13%
4/14/2000	-13%	-39%	-11%
1/30/2003	34%	52%	61%
11/26/2007	-37%	-15%	0%
5/20/2010	24%	55%	98%
8/4/2011	16%	62%	144%
8/24/2015	15%	52%	81%
1/13/2016	20%	37%	102%
2/8/2018	5%	52%	-
11/23/2018	18%	78%	-
2/27/2020	28%	-	-
2/22/2022	-	-	-
Average	**11%**	**30%**	**51%**

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