Prevailing Through Stock Market Declines

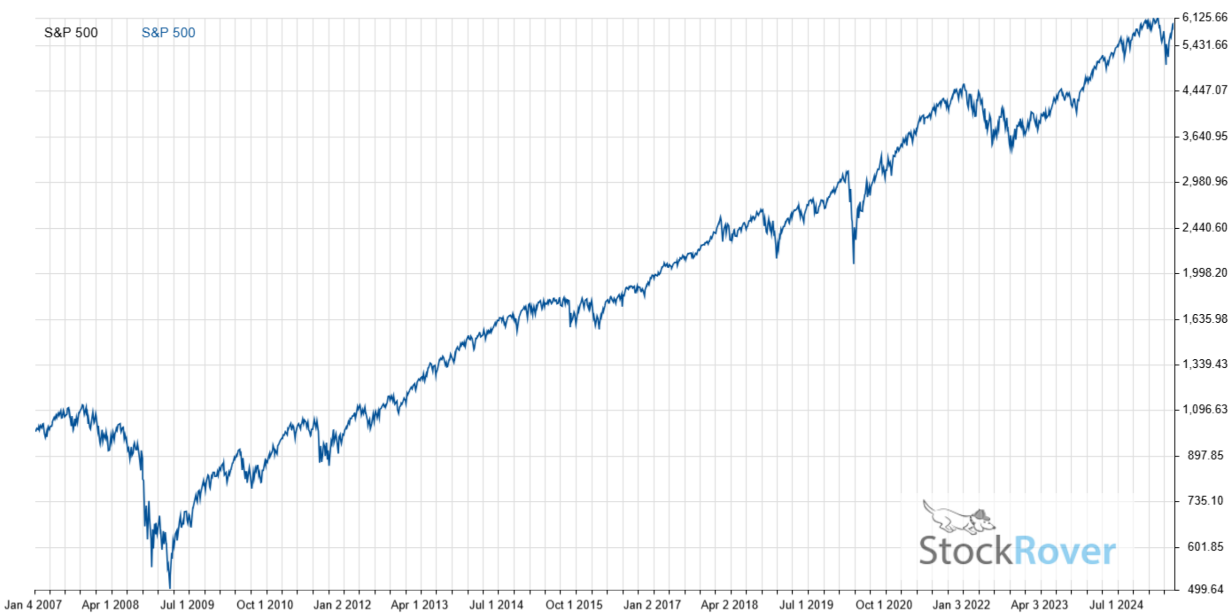
"The market is the most efficient mechanism in the world for transferring wealth from impatient people to patient people." – Warren Buffet

A balanced perspective on the stock market is essential for long-term investing success. Market declines are a normal part of the investment cycle. Below, we outline the different types of market downturns, and how often they occur. Understanding these patterns can help investors maintain discipline during periods of volatility.

First and foremost, below is a summary of market decline types and common causes.

Type	*Decline*	*Frequency*	*Cause*
Pullback	5%+	1–2 times per year	Normal fluctuations, no major cause
Correction	10%+	~1.5 years	Overvaluation, reversion to mean
Bear Market	20%+	~5 years	Dot com bubble, Great Financial Crisis, Pandemic, and Geopolitical events

Notice the frequency of market declines and how often they occur. Investors typically have one of two reactions when volatility rears its ugly head: fear or greed. Typically, the best way to weather a downturn is to stay invested since it is difficult to time the stock market's recovery. For those who have available capital, downturns can present strategic opportunities to invest at lower prices.



The chart above reflects the historical price of the S&P 500 from 1/1/2007 - 11/6/2024.

Common Investor Mistakes During Market Declines

Recognizing common investor mistakes and avoiding them is imperative to realizing your long-term goals. During market turmoil, common investor mistakes include the following:

Going to cash: Panic selling locks in losses and risks missing the rebound. While this may give you some peace of mind at the moment, this is almost guaranteed to hurt you financially long-term.

Media Overconsumption: Excessive news consumption fuels anxiety and impulsive decisions. Following the herd and recency bias can result in abandoning sound strategies. Stay informed, but don't let headlines derail your long-term plan.

Timing the Market: No one knows the perfect time to get in and out of the market. It is common that during a market downturn the feeling of doing something – anything – is better than doing nothing at all. Although inaction may seem counterintuitive, staying invested and focusing on your long-term financial plan tends to be the better choice.

Positive Investor Behaviors for Down Markets

On the other hand, there are a number of good decisions that can be made ahead of time to avoid the magnitude of a decline. During challenging times, try to keep these fundamental investing principles in mind:

Maintain a Diversified Portfolio: Different investments may go up and down at different times. Spreading your money over a variety of investment types helps reduce volatility in your portfolio. Investing in strong companies that have weathered previous declines is a must. Concentrated portfolios magnify risk. No more than 10% should ever be in one company, no matter how promising it seems.

Proper Asset Allocation: Your allocation between stocks, bonds, and other assets should reflect your risk tolerance and goals – before market declines occur. This is where a wealth manager can come in handy to offer a second opinion and professional perspective. If you feel excessive anxiety over stock market fluctuations, having more exposure to bonds and other fixed income is usually appropriate.

Investing Regularly (Dollar-Cost Averaging): Investing a fixed amount consistently helps mitigate market timing risk. During downturns, this strategy allows you to buy more shares at lower prices, boosting long-term returns.

Why Staying Invested Matters

You do not want to miss out on the full benefit of a market recovery. For the five biggest market declines since 1929, the average value of an investment has more than **doubled** over the five years after each market low. Investors who remained invested were rewarded with strong recoveries and benefited from the market's long-term return average of 9–10% annually, compared to average returns on savings accounts of approximately 3%.

When investing in the stock market, it is not a matter of "if" the market will move down, but "when". Making good decisions ahead of time and sticking to them with a calm mind will help you through the market storms. Understanding this history is crucial for investors – not to predict the next crash, but to maintain perspective during market turmoil and recognize that markets have historically rewarded those who remain invested through turbulent times.

Shuttleworth & Company is built on our ability to customize our advice to the unique financial circumstances of each client. We look forward to meeting to discuss the asset allocation that is right for you and understanding your goals moving forward. Contact us directly at 614-760-7738 or visit www.sco-advisors.com for more information.