Things You See During Every Market Correction

From the peak close in late-September through the week before Halloween, the S&P 500 fell around 10% for a quick little correction. Over the ensuing 10 trading days stocks have now bounced 6%.

Does this mean the correction is now over? Was it simply another flash correction?

I don't know and neither does anyone else but it is fascinating to watch the change in psychology when we get such a swift downturn in the markets.

This is not scientific in any way, shape or form, but I have some observations on what happens every time we get a market correction.

During market corrections...

...someone will invariably trot out the 1929, 1973-74, 1987, 1999, or 2007 comparisons. Data gets tortured. Graphs are overlaid on top of one another. Scare tactics are employed in the hopes of calling the next crash. And if it doesn't work the charlatans of the financial world will try again next time.

...people will start making recession predictions even though the stock market is a poor predictor of recessions because no one remembers that when stocks are in the midst of a downfall. Eventually, someone will be right about this but most of the time these predictions are based on luck.

...the people who were calling for a melt-up as stocks were rising will flip the script and now predict a bear market because price drives narratives.

...there's an enormous bull market in opinions about what's going to happen next and the volatility of those opinions seems to ramp up the further stocks fall.

...telling people to "ignore the noise" or "think for the long-term" does not help in the moment unless you've set realistic expectations ahead of time. If you don't build corrections and bear markets into your investment plan you are setting yourself up for failure.

...tactics will feel safer than a long-term process but tactics are fleeting and typically do more damage than good to a good investment plan, even when they work on occasion.

...the financial media will use terms like jitters, turmoil, panic, and chaos. These words are unhelpful to investors.

...investors begin paying more attention to the markets. Have you ever gotten lost in your own thoughts in the car while driving somewhere and once you got there thought to yourself, "I barely remember any of the details involved in driving here?" That's basically a bull market. Not many people pay attention because they're relatively boring. Corrections, on the other hand, are more like driving past an accident. Everyone gawks at the cars involved, pays more attention, and slows down, even the drivers on the other side of the road (seriously, why do people do this every time?).

...you'll hear *a lot* of cliches from professional investors on TV and in print that sound something like this:

- *At the end of the day, we're cautiously optimistic but will be waiting for another leg down before redeploying cash reserves.*
- *As we mentioned recently, this price action is perfectly normal and we came into the correction positioned for a downturn.*
- *The fundamental story has completely shifted. We're going to wait until the dust settles.*
- *We remain constructive long-term but see more near-term volatility.*
- *We still think the rally is a second-half story based on the earnings numbers.*
- *We view any more weakness in the markets as a buying opportunity.*
- *Investor sentiment is still too optimistic for a bounce at these levels. We see more pain ahead.*
- *Stocks still represent a good long-term buy at these levels.*
- *We see Dow 26,104.3487 as a key level of support. If it breaks that level, watch out below.*
- *The technical damage to the stock market is much worse than investors realize.*
- *This is an environment where you sell the rips.*
- *There are more sellers than buyers.*
- *All of the stocks that have been leading the market higher are getting crushed which is not a good sign going forward.*

...every time stocks fall a little it will *feel* like they're going to fall a lot more. Sometimes this happens but most of the time a correction is just that.

...it becomes easier to confuse your time horizon with other investor's time horizons.

...investors are quick to latch on to narratives that can explain what's going on in the markets and why but most of the time there's no rhyme or reason for the downfall. Sometimes stocks fall simply because they rose too much and investors are resetting their expectations.

...fundamental investors quickly turn into technical traders and pay more attention to the charts than they do when markets are rising.

...investors with decades and decades to invest will invariably make short-term decisions with long-term capital. There are certainly some memorable market crashes that can leave lasting scars but how many unmemorable market corrections have today's retirees lived through? I'm guessing most have completely forgotten many of them.

...people forget market corrections are perfectly normal. Since 1945, the S&P 500 has experienced a double-digit correction roughly once every other year and a bear market once every 5 or 6 years. These things are a feature, not a bug of a well-functioning stock market. If we never got corrections, stocks wouldn't earn the risk premium they do over safer alternatives.

Further Reading:
When Stocks Fell 10%...