



Market Pullbacks

When Markets Fall: Pullbacks and Drawdowns

Market declines come in all shapes and sizes. The below chart reflects the average frequency of various size market pullbacks and drawdowns. Pullbacks, or declines of 5-10% have occurred frequently in the markets, averaging about 3 times a year. Corrections are generally defined as declines of 10%, but less than 20%, and have happened as often as once a year. Market declines of 20% or more occur less frequently, averaging once every 6 years. A drawdown of this size typically denotes a “bear market”.

	-5% or more	-10% or more	-15% or more	-20% or more
<i>Average frequency</i>	About 3 times a year	About once a year	About once every 3.5 years	About once every 6.3 years
<i>Length (days)</i>	46 days	117 days	275 days	425 days

Bear markets can last for a while, but that is not always the case. The bear market in early 2020 lasted for only 33 days. For long-term investors, research has shown it is generally not wise to try and time the markets in times of market volatility and uncertainty. Even in bear markets it is wise to “stay the course” so not to miss out on the market’s eventual recovery.

It is important to keep in mind that current market conditions rarely provide a clear direction as to the future performance of the markets. While past results don’t guarantee future returns, markets have always recovered from past market pullbacks and drawdowns. Market declines should remind plan participants to focus on their long-term investment strategy and goals. If those remain intact, then in many cases staying the course (doing nothing) is often the best course of action.

For more information on current market conditions, email Brody Ledingham at bledingham@ipswichfinancial.com or call at 978.817.2858.

Chart Source: RIMES, Standard & Poor’s. Assumes 50% recovery of lost value. Length measures market high to market low.

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ACR# 4767871 06/22