The Lesson From Stock Corrections Past? 200 Days of Pain

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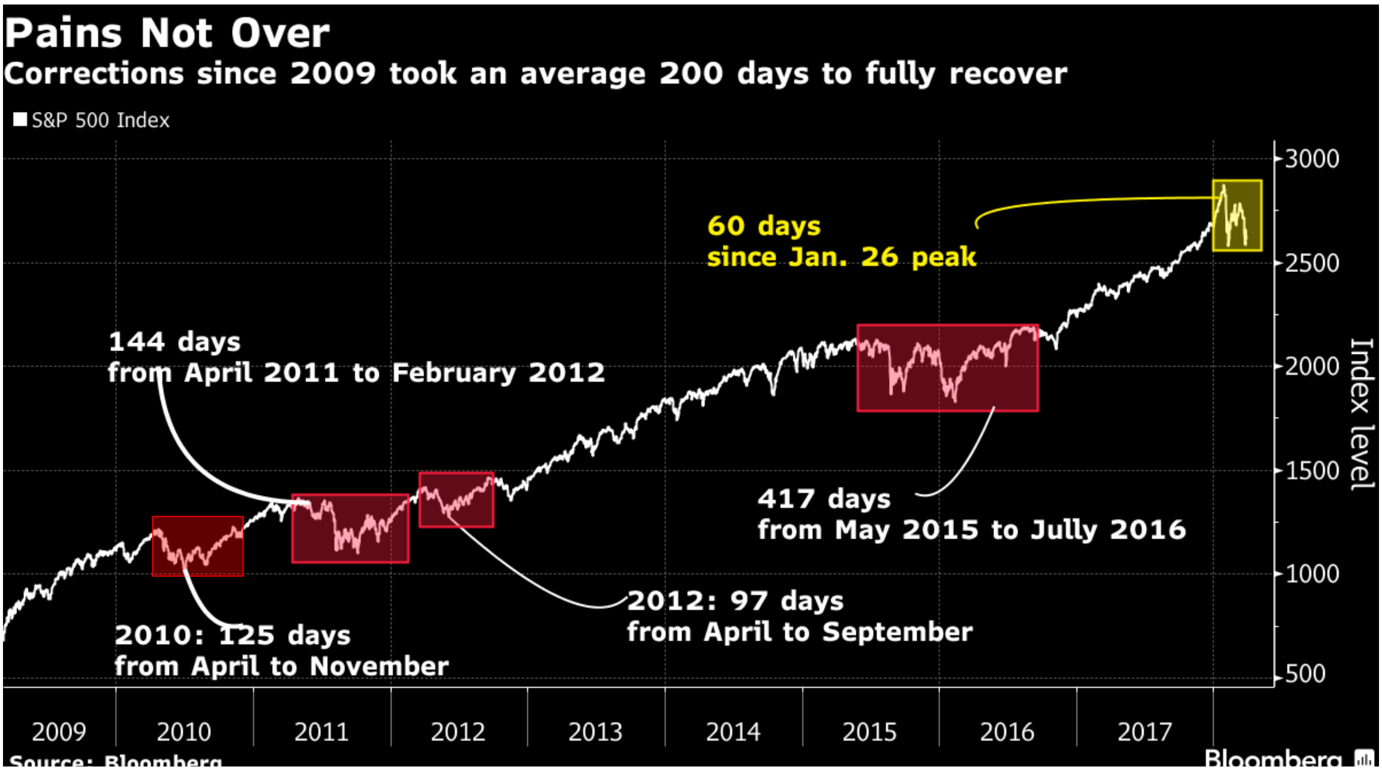
- S&P 500 fell 14% on average in five similar selloffs since '09
- Current rout would rank at bottom in duration if ended now

Remember the last time stocks fell so hard? You probably don't, and that's making today's market seem harsher than it is.

It's a fact of the life of the mind <https://www.bloomberg.com/news/articles/2017-10-27/how-to-profit-from-behavioral-economics> -- things always seem worse in the present. In reality, they're not. In this bull market alone there's been five other corrections like this one, and it's taken around seven months on average for equities to climb out of their hole. Based on that path, the current jitters won't be fully eradicated until August.

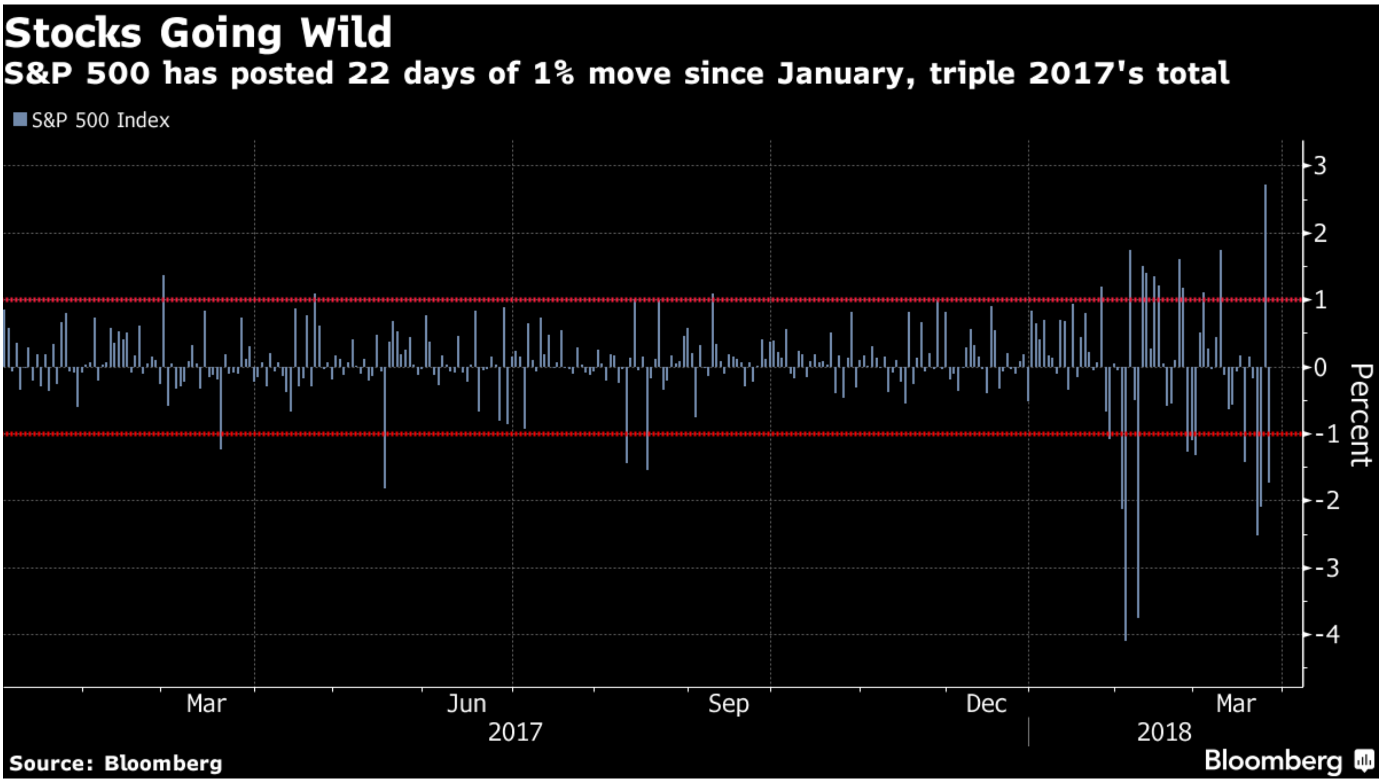
Just because bouts of losses are normal doesn't mean they're painless, especially when momentum stocks are leading the way lower. But the statistic is a reminder that it's unrealistic to expect a market recovery to involve a straight line back up.



“This is very stressful stuff,” said Michael Purves, Weeden & Co.’s chief global strategist. “It’s like going to the gym and lifting weights after you haven’t been to the gym for two years. Part of it is just a very normal psychological, emotional reaction.”

Since 2009, the average correction in U.S. stocks has lasted 200 days and lopped 14 percent from the S&P 500. That means if this one ended this week -- an unlikely prospect, given the index just posted its fourth consecutive move of greater than 1.5 percent -- it would be the second shortest and second shallowest of them all.

It seems even worse because of how placid markets have been since the last disruption. While individual stocks are regularly rising and falling 5 percent nowadays, consider that in 2016 and 2017 the S&P 500 went through several multi-month stretches without posting a single up or down day of more than 1 percent.



That hasn’t been the case lately. The S&P 500 dropped 1.7 percent on Tuesday, erasing more than half of the previous day’s 2.7 percent rally. Futures on the gauge climbed 0.2 percent at 9:57 a.m. in Hong Kong.

Stock turbulence as measured by the benchmark anxiety gauge, the Cboe Volatility Index, is much higher. At 22.5 now after rising for the third time in four days, the measure is nearly twice its level for the previous two years. There have already been 22 days in which the S&P 500 moved more than 1 percent in the first three months of the year, triple the total for all of 2017.

“You had this incredible low-volatility environment, but markets are supposed to go up and down,” Michael O’Rourke, JonesTrading’s chief market strategist, said by phone. “Relative to how markets should be and how they behaved most of my career, thus far this selloff is not a major event. At this point the selloff relative to history is just a blip."

So the rupture is back-to-normal, and normal is usually hard. Take the action in tech mega-caps, a group that lured investors with gains more than triple the market since 2016. They've been cited by money managers as the most crowded trade in Bank of America's March survey for a second month.

The NYSE FANG+ index, tracking the FANG block and its megacap brethren, sank by a record 5.6 percent Tuesday, with the group wiping off $180 billion in stock value.

"So much of the money was directed toward tech stocks, and there is a much greater emotional identification for investors in these household names," said Julian Emanuel, chief equity and derivatives strategist at BTIG LLC In New York. "People are incrementally more agitated than they were during February's leg down because everyone believed the coast was clear. People are optimistic by nature, so when corrections hit, they are largely unexpected and emotionally jarring."

However bad it feels, it's a long way from the worst. While the S&P 500 has risen or fallen by more than 2 percent six times this year, it swung by twice that amount nine times in October 2008, the depths of the financial crisis. The VIX topped out above 80 in those days.

"It's important to remain cool," said Walter "Bucky" Hellwig, Birmingham, Alabama-based senior vice president at BB&T Wealth Management, who helps oversee about $17 billion. "I keep the checklist of things that went wrong during the financial crisis, and I look at it from time to time to see where we stand. We're nowhere close."