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Is a Stock Market Correction Overdue?

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When the stock market reaches a new high, investors naturally wonder if a correction is imminent. A correction is commonly defined as a decline of 10% or more from a recent peak in a stock index such as the S&P 500. Are we going to experience a stock market correction? In a word, yes. Here's how we know:

Since 1926, the stock market, as measured by the S&P 500, has experienced a correction of 10% or more about once every year. (Source: Ned Davis Research). While the past is not always a guide to the future, corrections in the stock market are very common.

Market corrections are like rainstorms in spring: We know they're coming, but we can't say exactly when the first drop will fall. Just as healthy weather cycles include both sunshine and rain, healthy markets include both rallies and setbacks. Corrections are part of the market's natural rhythm, refreshing opportunities and clearing excess—inevitable, but always on their own schedule.

Corrections: What You Need to Know

First, let's cover the most important lessons from stock market history:

- Corrections are a normal part of the investing process.
- Corrections are completely unpredictable. They begin and end without warning. Corrections don't announce themselves and trying to predict or "trade around" them rarely benefits most investors.
- Corrections are frequent, occurring on average about once a year.
- Corrections tend to be short. Again, according to Ned Davis Research, the average length (duration) of a 10% or greater correction in the S&P 500 since 1928 is about five months, or 104 trading days from peak to trough.
- Since 1927, the S&P 500 has spent about one-third of its time trading at least 10% below a recent high, with most corrections resolving gradually and leading to fresh market advances. These episodes serve to "reset" the market, often curbing speculative excess and providing opportunities for disciplined investors.
- While many dire predictions tend to be common during stock market corrections, the probability of a correction developing into a full-blown bear market (a decline of 20% or more) historically is just 25% since 1928 (Source: Ned Davis Research). In other words, three out of four corrections do NOT become bear markets, but just temporary setbacks.

What Should You Do Now?

If your portfolio is well-diversified and centered around good quality investments, doing nothing during a correction is often the best course. Periodic volatility is expected, and patience is usually rewarded.

However, the best time to prepare for market declines is before they occur. If you hold speculative positions—such as meme stocks, highly leveraged ETFs, concentrated bets in hot sectors, lower quality fixed income investments, or newer products like single-stock ETFs, this might be a good time to trim or eliminate those positions from your portfolio.

Rebalancing your portfolio is also a timely idea. Many investors who began with a balanced 60/40 portfolio (stocks/bonds) five years ago may find their allocation has shifted to 75/25 due to strong equity gains. If you are overweight in technology, growth stocks, or narrow market slices, consider rebalancing. If you don't rebalance your portfolio, the stock market might do it for you, and you may not like the result.

For those committed to long-term growth, stock market corrections can be a friend. Why? They allow investors to buy good investments at a lower price.

Conclusion

> "The investor's chief problem-and even his worst enemy-is likely to be himself." – Benjamin Graham

Enduring investment success is built not on outguessing the market, but on mastering your own emotions and staying committed to decisions based on investment principles—even when uncertainty feels overwhelming.

And remember, the best time to prepare for market setbacks is before they occur. Take advantage of recent strength in the market to review and rebalance your investment portfolio and review your long-term plan.

History shows those who manage risk thoughtfully, stay diversified, and avoid emotional decision-making are the ones most likely to reach their goals. In investing, true strength isn't about bold moves or perfect timing—it's about consistency, prudence, and the self-control to trust your plan when others panic. Stay focused, stay disciplined, and let time work for you.

S&P 500 (January 1, 1950-November 6, 2025)

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