

DREADED DRAWDOWNS

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Portfolio ‘drawdowns’—declines from all-time highs—are the stuff of investor nightmares. How can you expect to build wealth if you are losing ground?

Previously [1], we highlighted a staggering fact: Over long periods, the market is in drawdown 93% and only covers new ground 7% of the time—a truly demoralizing reality. Yet, despite an average intra-year drawdown of about -16 %, markets have advanced by nearly +10% annually since 1928.

So, while this pervasive sentiment of ‘loss’ is natural, it’s misleading.

But are drawdowns instructive?

Drawdowns grow progressively more ‘alarming’ from Pullbacks (-5% to -10%) to Corrections (-10% to -20%) to Bears (deeper than -20%).

Since 2009, we have seen 30 drawdowns: 5 Pullbacks, 21 Corrections (including the present one), and even 4 breaches of the traditional 20% bear threshold. Yet, in this ongoing bull market regime, the S&P 500 has relentlessly compounded at a low-teens rate!

In many ways, these drawdowns have been a healthy reset, extending the bull market regime’s longevity by rebalancing valuations, providing corrective feedback to corporations, and offering attractive reentry points for investors. Even the four bear market breaches of this period failed to derail the bull regime—each was swiftly followed by robust rebounds that more than offset the drawdowns.

And this isn’t just a recent phenomenon. Since 1928, there have been 34 double-digit corrections that never escalated into bear markets, underscoring the healing potential of most drawdowns.

So, should investors ignore—or even celebrate—drawdowns rather than trying to mitigate them?

Pullbacks and corrections are so frequent, fleeting, unpredictable, and volatile that investors trying to trade around them face high odds of market timing missteps, including whipsaws, trade friction, and unnecessary tax liabilities. Worse, such missteps can permanently lock in losses while missing critical rebounds, increasing shortfall risk.

But can’t drawdowns also signal the onset of bear market regime shifts, potentially derailing retirees and stunting the growth of aspirational portfolios?



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Absolutely! Bear market regime shifts are deep, protracted, and destructive—and skillful strategies must navigate them by switching to an ultra-defensive posture.

However, the key is *not mistaking* pullbacks or corrections for veritable bear market regimes! Committing such a false positive error (“crying wolf”) can have punishing consequences for portfolios.

Our strategies focus on differentiating routine drawdowns from actual bear market regime shifts, helping investors avoid costly errors. We invite you to learn more.

[1] https://www.linkedin.com/posts/konstantinos-kostas-grigorakis-cfa-754264103_the-most-important-chart-in-investing-there-activity-7142612381582471168-0F8J?utm_source=share&utm_medium=member_desktop&rcm=ACoAABozTTAB7_bL6T6pkI6yFizuM8rHnhF3zMQ

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