Market Drawdowns Tend to be Short-lived

Since 1942, there have been six drawdowns of 30% or more for U.S. stocks. The shortest drawdown lasted 1.1 months (COVID-19 pandemic), while the longest was 18 months (Tech Bubble)[1]. What happens after a drawdown? Historically, the market expanded over the next seven years and delivered a total return of 225%, on average.[2]

YEAR	Maximum Drawdown	Time to Decline 30% (Days)	Total Return During Expansion	Length of Expansion Following Decline
1968	36.1%	531	37.5%	2.6 years
1973	48.2%	540	125.6%	6.2 years
1987	33.5%	55	582.1%	12.3 years
2000	49.1%	542	101.5%	5 years
2007	59.8%	363	400.5%	11 years
2020	33.9%	30	102.5%	2 years
Average	43.4%	343.5 days	225.0%	6.5 years

Source: Factset, Morningstar, First Trust, Bloomberg. Data for the S&P 500 Index. Data measured daily from 4/29/1942-3/31/2025

Still Fearful? Dip Your Toes in a Little at a Time

Despite these historical patterns, market drawdowns are disconcerting, and some investors may still fear investing at the wrong time. One way to overcome that concern is to dip your toe into the market slowly by dollar-cost averaging.

In dollar-cost averaging, individuals invest a specific amount at regular intervals over time. Most individuals already do this—through an employer-sponsored retirement plan, like a 401(k). In employer-sponsored plans, a set amount is typically taken out of earnings and invested each pay period.

By investing gradually, investors can potentially remove the emotional and timing elements of putting their money to work in the market. The "averaging" in dollar cost averaging means that as stock prices fall, investors can buy shares at cheaper prices. Conversely, if prices rise, they are buying shares at higher prices, but over time the average market entry price may smooth out.

Data show that two-thirds of the time, investing immediately produced better long-term results than a staged entry. That's in part because a portion of cash sits idle on the sidelines, so it's not working to potentially build net worth. But for hesitant investors, the "cost" of dollar-cost averaging may well be worth the peace of mind.

The Takeaway:

Investing on an ongoing basis should eliminate the illusion of the "right time." We believe that time *in* the market is one of the key determinants of building wealth over time. But if being fully invested isn't feasible, a staged entry is better than not investing at all. Our Wealth Advisors can work with you to implement a monthly funding plan into your Fool Wealth portfolio.

[1] Source: First Trust, Bloomberg Daily returns for the S&P 500 Total Return Index from Apr. 29, 1942 to Mar. 31, 2025.

[2] Source: First Trust, Bloomberg Daily returns for the S&P 500 Total Return Index from Apr. 29, 1942 to Mar. 31, 2025.

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