

ABOVE THE FRAY

Stop, Drop, and Stay the Course

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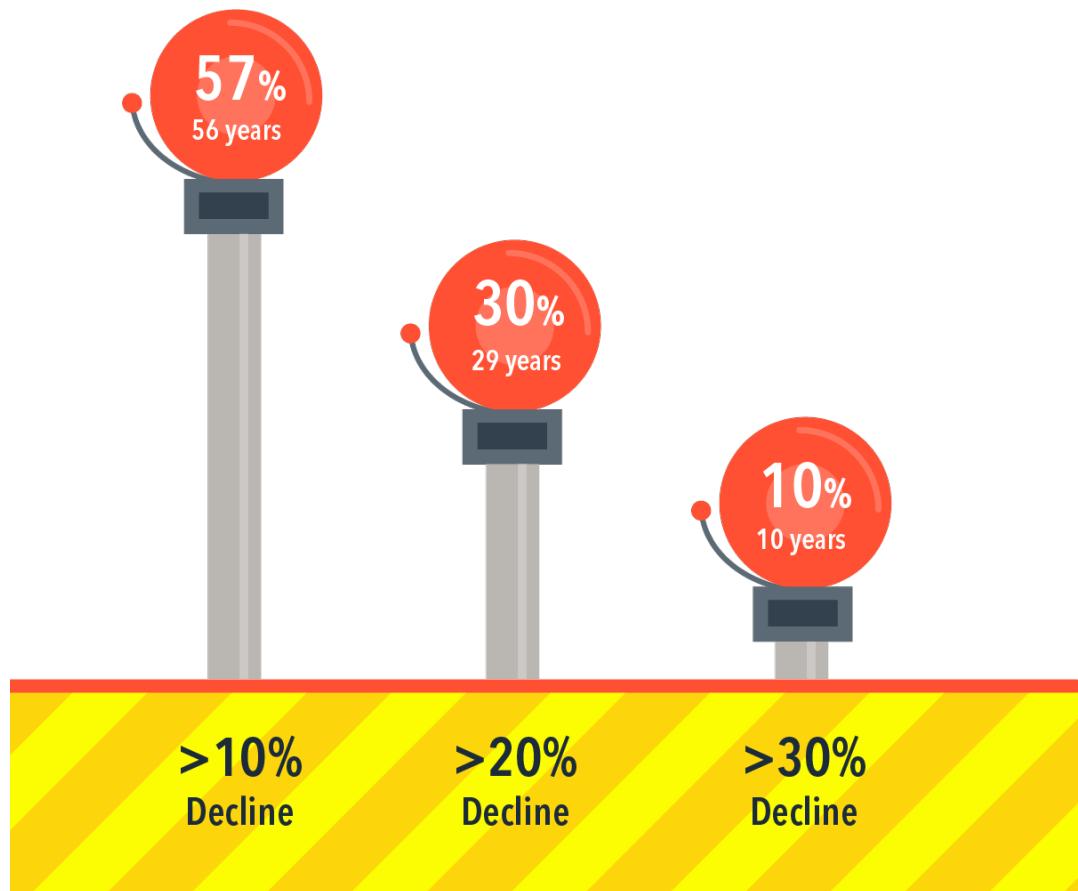
For many of us, the importance of a fire drill is ingrained starting as early as elementary school. The procedure of reacting to an alarm by calmly exiting the building is repeated to build muscle memory for what to do in a real emergency. Just as importantly, it cements lessons on what not to do. For example, I don't think the saying goes: "Stop, drop, and grab a coffee before riding in the elevator."

The concept of a fire drill is relevant to investing too. Knowing the range of possible outcomes, and how to behave in those circumstances, is critical to success for the long-term investor. The odds are that investors will be tested with a downturn. US stocks have experienced a downturn of at least 20% at some point during 29 of 98 calendar years since 1927.

It's important to keep in mind that a bad stretch doesn't mean a bad year to come. While a 20% slide occurred in 29 years, only six times did the market end up below -20% for the full year. And the market actually posted positive full-year returns in 10 of those 29 years. This reinforces the lesson that the most reliable course of action following a market downturn is to [remain invested](#).

We can't control—or predict—market drops. What we can do is avoid compounding losses by reacting. Fire drills save lives. Financial fire drills may help save our savings.

Exhibit 1
Frequency of Declines
for the US Stock
Market, 1927–2024



Past performance is not a guarantee of future results. Actual investment returns may be lower.

There are a total of 98 years in the sample. Returns data is based on daily Fama/French Total US Market Research Index returns from January 1, 1927, to December 31, 2024. Decline is measured as the maximum intrayear peak-to-trough decline using daily returns. Within each calendar year, peaks are defined as the highest index level prior to a given day, and troughs are defined as the lowest index level from the prior peak. The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. See "Index Descriptions" for descriptions of Fama/French index data.

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Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: [Ken French website](#).

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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