

INSIGHT

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Market crises through a long-term lens



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During good times in markets, headlines can cause investors to wonder whether such highs signal an impending downturn or poor future returns. However, history suggests that this fear, whilst common, is often misplaced.

Markets reaching an all-time high is not unusual – in fact, it happens regularly. This is a reflection of investors being rewarded for taking on the risks of stock ownership, rather than a warning sign.

Since 1926, the US market has ended on a new high in about one out of every six weeks

Dimensional Fund Advisors¹

This is not to say that markets will not decline – they do, and they can fall with a terrifying speed and magnitude. However, attempting to predict when a high will turn into a decline is not only extremely difficult, but getting it wrong can be costly. The reality is that no one possesses the ability to consistently and accurately time the market.

One tool investors possess to protect investments against declines is time. To provide context, the chart below illustrates seven major stock market crises over the past century, showing the performance from peak to trough and, below, showing that - in most cases - ten years later portfolios had recovered and grown in real (inflation-adjusted) terms. The fact that not all periods show a positive outcome over the ten-year term illustrates the lack of any implicit guarantees – this risk is why investors are typically rewarded handsomely in the long run.



Figure 1: Market crises look different through a long-term lens

Source: Albion Strategic Consulting. Data source: Albion World Stock Market Index © <https://smartersuccess.net/indices>. In USD, after inflation.

Markets are inherently unpredictable. On any given day, they are roughly as likely to rise as they are to fall. Over five-year holding periods, returns of stock markets have fallen short of inflation 1-in-5 times² – a reminder of the risk that comes with investing.

However, the longer an investment is held, the greater the opportunity for expected outcomes to prevail. The investing journey comes with large steps forward and back – that is the nature of the game – but those that can look at investing through a long-term lens can cut through the headlines and take comfort that stock markets are doing the heavy lifting for them in the long run. Stay invested.

End notes.

1.

Dimensional Fund Advisors (August 2025), 'The Informed Investor' podcast, ep. 6

2.

Data source: Albion World Stock Market Index © <https://smartersuccess.net/indices>. In USD, after inflation. Jul-26 to Dec-24.

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