What investors should learn from stock market's sell-off and bounce

 Matt Krantz, USA TODAY *10:03 a.m. EDT August 31, 2015*

For investors already nervous about being able to afford retirement, seeing the recent stock market swings reflected in their 401(k) balances can be deeply unsettling. Bloomberg

(Photo: John Foxx, Getty Images)

Stock market corrections make investors poorer. But they should also make them tougher and smarter. Learning from big sell-offs can pay off in the future.

What a sell-off it was. The Standard & Poor's 500 entered into a correction this week and fell as much as 12.4% from the market's high to the closing low on Tuesday.

It was the first time investors have been subjected to a correction since 2011. Investors watched as nearly $2 trillion in value was erased from the values of S&P 500 companies in just days.

Stocks are racing back — narrowing the losses from the high to 6.7%, but still leaving investors to wonder if the pain is over.

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(http://www.usatoday.com/story/money/markets/2015/08/31/stocks-monday-wall-street-dow-nasdaq-markets/71451834/)

But one thing's for sure: Investors got a refresher course on lessons about investing in good times and bad, including:

•**Don't try to time the market.** As if investors needed to hear this again, but the vicious decline and then sudden upswing was a resounding reminder of the perils of trying to get in and out of the market at just the right time. Investors who panicked and sold on Tuesday locked in a 12.4% decline from the market high, which was at least half repaired in just two days. And that's not to mention the head-fake rally on Tuesday that chewed up investors who jumped in too early.

•**Don't load up with hot, trendy stocks.** The broad stock market's pain is tough enough to endure, but why make the situation worse? Apple, which is consistently a top holding by individual investors, was the biggest wealth destroyer in dollar terms during the market's implosion, falling 21% from the market's high to the low. Investors who have loaded up on this one stock have magnified the effects of the market's meltdown, which was already bad enough.

•**Don't overreact.** If you have a diversified portfolio, you don't need to fret over the market's day-to-day swings. Most market declines don't turn out to be much more than a blip on a long-term chart headed upward along with companies' earnings and cash flow. Most corrections never turn into full-blown bear markets — and corrections pass soon enough.

The past 19 corrections on the S&P 500 lasted only 138 days on average, but more important, investors recovered their losses in just 110 days. If you invest for the long-term — these events are typically just an uncomfortable couple of months. A little pain is a small price to pay to enjoy the long-term money-generating power of the market.

“History suggests the S&P 500 will rebound. We agree,” according to a Barclay’s Capital report to clients this week.

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