



## What's Really Causing This Global Stock Market Meltdown?

### Description

After the S&P 500 hit an inflection point in January, I'd warned investors to not make drastic changes to their portfolios for the fear of missing out on quick gains. [Defensive dividend stocks](#) were being tossed aside by investors who wanted to get the most out of their invested capital, but, unfortunately, many investors who got overly greedy are really starting to feel the pain today.

Sure, investing is fun, but the markets aren't meant to be so exciting such that investors should stare at ticker symbols on a minute-to-minute basis, getting a euphoric rush from short-term upward movements. That's a rush of dopamine that the general public may be craving thanks in part to social media's effect on the human psyche. The general public appears to be using the stock market as a means to get a short-term dopamine rush, and through cryptocurrencies or cannabis stocks, this kind of minute-to-minute thrill is possible, but I digress.

Everybody was overly bullish, euphoric, and complacent a month ago, but now that the tables have turned, everybody is in a panic, with the volatility index (or fear gauge) surging 115% in a single day. Why was everybody so complacent? What's really driving this global sell-off?

The general public believes U.S. interest rates and expected wage growth are the main triggers for the recent bloodbath, but I think this was simply a swift breeze that knocked over the house of cards that was the U.S. market, which has gotten way too frothy over the past few months. Cannabis stocks, cryptocurrencies, and a [gambler's mentality](#) have driven up the general public's appetite for speculation, and unfortunately, the speculation spread across global markets. U.S. stock valuations were out of this world, and sadly, a majority of the buying activity in recent months has been from those with weak hands who were afraid to miss out on a quick "free ride."

What now?

U.S. markets got ahead of themselves in January, so it shouldn't be a complete surprise to see the quick gains surrendered in a hurry. The S&P 500 was growing at an unsustainable rate, and after the recent plunge, I think the U.S. cool-down will allow the TSX an opportunity to close the performance gap once all the dust settles. There are no major dents in the U.S. economic armour, so I just think

we're just experiencing a valuation pullback due to excessive exuberance.

If you've kept a few stocks on your radar that you were intending to buy on a pullback, now's your chance. If you've got doubts, and you think the markets are moving into bear mode, you should at least nibble into the stocks you've had your eye on. That way, you won't miss out on the sale should this correction not be as insidious as you're expecting.

I'd avoid overheated stocks like **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)), which, despite falling over 4% yesterday, is nowhere near levels that are reasonable. Instead, I'd opt for cheap earnings-growth kings such as **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)) or deeply discounted gems like **Air Canada** ([TSX:AC](#))(TSX:AC.B) with its 3.4 trailing price-to-earnings multiple.

### Bottom line

There are a tonne of bargains on the TSX, and Canadians should think about putting some cash to work, as the deals continue to come in at a fast and furious rate. Avoid speculative plays, stick with premium securities with a solid base, and you'll do very well in several years from now. Don't fear corrections; embrace them, and you'll be glad you did when this painful experience is in the rear-view mirror. Be greedy, but don't back up the truck just yet.

Stay hungry. Stay Foolish.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:AC (Air Canada)
4. TSX:QSR (Restaurant Brands International Inc.)
5. TSX:SHOP (Shopify Inc.)

### PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### Category

1. Investing

### Date

2025/08/26

### Date Created

2018/02/06

### Author

joefrenette

default watermark