



## Analyzing 2017: What's the Likelihood That You'll See a Stock Bounce Back After a Big Sell-Off?

### Description

When stocks dip in price, it sometimes attracts the interest of investors looking for a bargain, because the expectation is that the share price will rebound. I decided to challenge the accuracy of that hypothesis by looking at data from 2017 to see just how likely a stock is to bounce back after a bad day. I pulled the data for 30 of the most popular and actively traded companies on the TSX last year, and I'll go over my results below.

#### Big or moderate drops in price don't happen often

One of the reasons that value investors might get excited about the prospect of a big drop in price is that it's not a frequent occurrence. With over 7,000 data points from last year, the stocks I selected had moderate or big drops in price only 732 times, or ~10% of the time. I defined a big drop as being a decline of 5% or more, and a moderate one as more than 2%.

#### Drops in price: how often is there a bounce back?

More than 60% of the time, a big or moderate drop in price wasn't followed by a strong performance in either direction. In just over 16% of cases, there was a big or moderate jump in price after seeing a noticeable decline in the prior trading day. In 20% of the cases, a big or moderate drop in price was followed by another one.

If we narrow in on big price drops of 5% or more, then we see more of a trend, but it is still far from significant. A big drop in price was followed another one only 6% of the time, while a moderate one was much more common, occurring 23% of the time. On a positive note, a big jump was actually more common than a moderate one in the day following a big decline, occurring 15% of the time compared to just 8%.

A good example of a big bounce back is what happened with **Home Capital Group Inc.** ([TSX:HCG](#)). In April it went over a cliff, dropping 65% in just one day, and it increased 34% the following day. The stock would go on to see even more of a recovery in the months ahead [after receiving a lifeline from Warren Buffett](#)

, but it is still nowhere near the price it was at before the big sell-off happened.

### What do these results tell us?

For investors that are looking to earn a quick profit after a steep decline in price, the proof just isn't there to show that it's worth the gamble. In the majority of cases, there isn't significant activity in either direction, and you could possibly be left with a stock that you really didn't want.

### Takeaway for investors

While a big drop in price might be an opportunity to buy in at a lower price, [it is not a guarantee that a stock will bounce back](#). Ultimately, you want to look for stocks that have strong fundamentals, regardless of their current position. The danger of waiting out a stock that's had a big drop is that you could miss out on gains along the way. If the stock is a good buy, then in the long run it won't matter too much whether you bought it at \$100 or \$95.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

### PARTNER-FEEDS

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

### Category

1. Investing

### Date

2025/08/21

### Date Created

2018/02/07

### Author

djagielski

default watermark

default watermark