The Market Is in Reset Mode! Scoop Up a Bargain in This Unfairly Beaten-Up Industry Today

Description

The Dow posted a horrifying 666-point drop on Friday right before it suffered the largest single-day point drop in history. For new Canadian investors who just started investing with their 2018 TFSA contribution, that has got to be absolutely horrifying, but if you've managed to get through it without panic selling, then congratulations; you've shown commendable resilience early on in your investment career that you'll likely remember forever.

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Markets don't always go up. If you panic, you're likely going to sell, realize a loss, and you'd be breaking Warren Buffett's top two rules: "Rule number one: Never lose money. Rule number two: Never forget rule number one."

By choosing to sell once the markets take an unexpected downturn, you're choosing to realize losses, and you'll miss out on a huge rebound like the one we had on February 6, 2018. By keeping cool during times of turmoil, you'll likely be able to make money (over the long term) at a time when most retail investors lose their shirts.

Does Tuesday's up day mark the end of the plunge?

We really don't know that yet, but you shouldn't worry about that. Timing the market doesn't work, and if you're not willing to hold a stock for at least five years, you're not really investing for the long term, you're likely trading or speculating, which should be off limits for any beginner who's just dipping their toe in the markets.

On Wednesday, the U.S. markets were a roller-coaster ride, starting low and moving higher in the afternoon before surrendering a majority of the gains and ultimately finishing in the red. The most remarkable part of the day is the fact that the tech-heavy NASDAQ nosedived 0.9%, while the TSX just shed 0.16%. In many previous pieces, I've noted that we likely haven't seen the last of a rotation from tech into value stocks, and that the TSX would likely be more resilient versus U.S. indices, simply because there's more value on this side of the border, especially after incredible rally that U.S. stocks enjoyed last year.

Over the past several weeks, I've urged Canadians to stick with TSX-traded stocks, and not to jump ship to ride the U.S. melt-up, even though many Canadians were probably thinking they were missing out on what seemed like "easy money" at the time.

Going forward, I believe value will prevail, and the TSX will gradually pull ahead of the red-hot U.S. markets, because valuations make a lot more sense on this side of the border. As Jim Cramer said this week, the U.S. markets are in "reset mode," so there's no reason to panic at negative stock price movements. At these levels, panic is driving down stocks, not logic, so it's a great time to be picking up stocks that are well positioned to benefit from a rising interest rate environment.

Consider the Canadian banks, like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which sold off violently over the past few trading sessions. The fear of rapidly rising interest rates is bringing markets down, so why are these financial gems selling off when banks are among the biggest beneficiaries of a rising rate environment?

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TD Bank is Canada's most U.S.-exposed bank, and the U.S. could be poised to raise interest rates four times in 2018 under new Fed chair Jerome Powell. You would think bank stocks would be exempt from this rate-induced sell-off, but you'd be wrong. Short-term movements in the markets seldom make sense, but when you catch such illogical movements, you can profit profoundly by buying shares of a stock whose recent movements make zero logical sense. This goes to show that the markets aren't at all efficient, and that Mr. Market can sometimes discount certain stocks by more than what's warranted.

Canadian banks are an incredible foundation to any portfolio, so I'd strongly urge investors to pull the trigger on any one of the Big Five banks, as I don't think the bargains will be around for very long — especially since I believe we're in a mild reset and not at the beginning of a bear market, although the Dow's record-breaking plunge on Monday may be indicative of such to some.

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