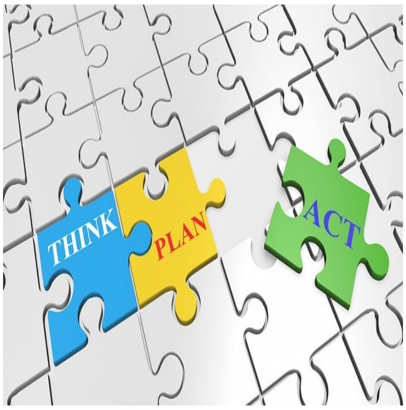

Here’s What Canadian Investors Should Do as Wall Street Corrects for the 2nd Time in 2018

Description

Don’t look now, but the S&P 500 just fell through its 200-day moving average, as we head into correction territory (+10% drop from highs) for the second time this year. Several high-profile firms, including **Goldman Sachs Group Inc.** (NYSE:GS), have been warning that there was a high probability of a crash this year, so investors should be well prepared for the return of the bear market. During times of turmoil, it pays to have a game plan, so you’re not stressed by market moves or overwhelmed by the barrage of negative sentiment.

The death of FOMO and the return to the fundamentals

In a piece published last December, I’d warned investors that a growth-to-value rotation would likely happen in 2018. Many investors have been exhibiting the FOMO (fear of missing out) mindset, and that’s caused many inexperienced investors to pile in to speculative instruments like cryptocurrencies, marijuana stocks, or venture cobalt mining stocks. For the last few years, speculation and FOMO have become the new normal, and unfortunately, this way of thinking has made its way into some of the stock market’s growth-heavy names, as the general public’s demand for speculative “get-rich-quick” investments surged.

Eventually, the euphoria caused the broader market to rally higher, led by the surging basket of tech stocks, whose valuations, I thought, were horrifying. When you consider the parabolic movements of many growth-heavy names like TSX newcomer **MedReleaf Corp.** (TSX:LEAF), which tripled in a few months following its IPO, a correction was to be expected.

As fellow Fool contributor Chris MacDonald noted, investors who’d injected fresh cash into overrun growth stocks solely because of the momentum were the ones who took the biggest hits. Unfortunately, it’s likely there were a lot of beginner casualties who jumped in at the worst possible time following the S&P 500’s inflection point.

Indeed, many investors have ignored the fundamentals and have thrown cash at the hottest of growth stocks. Unfortunately, this caused many growth names to move into speculation territory in spite their promising underlying businesses. While high-growth names demand a premium multiple, paying too much of a premium is an incredibly risky proposition. Simply throwing your hard-earned dollars at whatever's deemed "hot" at any inflated price in time isn't investing.

As volatility continues to pick up, and as we head deeper into correction territory, the new norm, I believe, will return to good, old-fashioned value stocks, many of which remain undervalued, even in today's frothy and turbulent market.

Why investors should stand by their Canadian stocks

I hate to push for home country bias; however, at this point in time, I'm going to recommend that investors stay the course with Canadian stocks. The TSX isn't officially in correction territory yet, as it's down ~7% from its high. As the growth-to-value rotation continues, I think U.S. stocks will continue to fall at a quicker rate than the TSX.

As you're probably well aware, the TSX isn't known for its abundance of growth names (unless you consider marijuana stocks), so such a growth-to-value rotation or tech-induced bear market won't hurt TSX-traded stocks nearly as much as their U.S. counterparts.

Moreover, Canadian stocks don't really have as much as the S&P 500 to correct from at these levels. Come May, the **S&P/TSX Composite Index** would have delivered a nearly 0% return over the past decade. I think that's a severe correction in itself!

While TSX-traded stocks will still stand to suffer more losses from here, Canadian value stocks, like **Alimentation Couche-Tard Inc.** (TSX:ATD.B), will become ripe for picking!

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