

Dow Crashes 832 Points on “Worrisome Wednesday”: Seek Shelter in This Stock As “Crazy Fed” Pushes Economy to the Brink of Recession

Description

What a bloodbath.

The Dow, TSX, and NASDAQ plummeted 3.15%, 2.12%, 4.08%, respectively, on a worrisome Wednesday that saw losses accelerate heading into the close. Right now, the blood appears to be on Fed chair Jay Powell’s hands as investors rush for the exits over his overly hawkish stance, which some believe is a mistake that could send the bull market on life support.

Don’t panic!

You’re probably worried with all the talking heads on TV telling you to sell your stocks, as they give their personal bearish projections for where the markets are heading over the short term. These talking heads are yelling over one another, contradicting each other over much of the carnage that’s already been done. And while the sell-off could certainly cut deeper, listening to such fear-inducing shows will only serve to amplify your fears, potentially leading you to sell from emotion alone.

I know it’s hard to stay calm if your portfolio shed 4% of its value in a single day, but by tuning out the fear-inducing noise, you’ll have the opportunity to focus on what matters: the fundamentals. It seems like the sky is falling today, but the **S&P/TSX 500 Composite Index** isn’t even in correction territory yet, so take a deep breathe and formulate a game plan so you can make it out of this ahead of the herd who’s rigorously hitting the panic button.

Has the Fed actually “gone crazy”?

President Trump has some harsh words for the Fed following the recent carnage: “I think the Fed is making a mistake. It’s so tight; I think the Fed has gone crazy.”

While Trump has made some outlandish comments that were unwarranted in the past, I think he’s right on the money when he says the Fed is “making a mistake.”

I’ve been a [harsh critic](#) of Fed chair Jay Powell for many months now, and I’ve warned investors countless times to [reduce their cyclical exposure](#) in favour of defensive dividend stocks in order to reduce the potential damage that may be caused by a Fed that I believe is dangerously speeding over the limit when it comes to rate hikes.

Powell has decided he’s going to raise rates, rather than delay his decision until after the release of further timely economic data. In other words, the decision has already been made, and there’s no more work to be done on the Fed’s part. His view is the economy is “strong” based on past metrics. Rate hikes are therefore in order regardless of trade wars, or further evidence that may suggest that the economy isn’t as strong as Powell believes.

I think Powell's thesis on rate hikes and the economy is akin to a momentum investor who buys a stock based solely on its past performance without any consideration of the underlying fundamentals or contingencies which may lie ahead. If Powell doesn't change his tone, it's not too far-fetched to think that we could realistically be on the brink of a recession.

So, the Fed's crazy then?

That's up for debate, but I do think they've made an honest mistake. Now, it's not a mistake that's pushed the economy off the cliff yet, as it's still correctable, but unless Powell acknowledges mistakes were made and changes his tone accordingly, I wouldn't be surprised to see more pain and fear as we head closer to Halloween.

But you're not going to be scared, even if there is more pain on the horizon because you're going to have a gameplan. You're going to have a shopping list ready of stocks that you're going to buy on a pullback, and when it comes time to pull hit the "buy" button, you're not going to convince yourself the circumstances have changed.

If the Fed has, in fact, made a mistake, it's not the end of the world. It's an opportunity for investors to do some shopping with overly beaten-up defensive names like **Shaw Communications** ([TSX:SJR.B](#))([NYSE:SJR](#)), which will fair better than average if we're knocked into a recession.

Shaw stock took a 3.7% hit to the chin on Wednesday at a time when the price of admission for such defensive names should be going up. I think it's a temporary market inefficiency that'll reward many investors who dare to buy while others sell.

Foolish takeaway

If you want to scare your investor friends, you may want to dress up as Fed chair Jay Powell this Halloween. While his tone is likely to continue to be a drag on stocks, I do think there are plenty of bargains to be had for long-term thinkers as you put your contrarian hat on.

Stay hungry. Stay Foolish.

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