After a Week of Frantic Selling, Should Investors Be Buying the Dip?

Description

Last week was just plain nasty.

The **S&P 500 Index** plunged nearly 7% from peak-to-trough, and although it seems like we're at the beginning of the end since this bull market is arguably the oldest on record, investors need to realize that their fears may be unwarranted, as we haven't even hit correction territory yet!

Given that the S&P 500 is back around its long-term trend line, this drop actually looks pretty healthy and appears to have opened up a tremendous buying opportunity for long-term thinkers who are willing to go against the grain.

This Fed-fuelled sell-off was a violent rotation out of growth stocks into risk-free assets and cash. Quicker-than-expected rate hikes are "bad news bears" for high-growth stocks, but they're not as detrimental to many out-of-favour value stocks. Nonetheless, many value stocks were casualties in the recent sell-off, as very few names ended up in the green after the two days (Wednesday and Thursday) of selling hell!

Once the dust settles, however, I do believe that investors will start putting their cash back to work in good old-fashioned Warren Buffett style value names that have grown out-of-favour thanks to the pro-growth mentality over the Streets in the last few years.

How to buy the dip cautiously

Last Friday's rally was a breath of fresh air, but don't think for a second that we've hit bottom. There could be substantial pain ahead, and if the S&P 500 retests February's lows, the "double-top" technical pattern might come to fruition and the bull's life as we know it could come to an abrupt end.

The U.S. economy continues to display signs of strength, so the bull might stay alive for many more years, but given the "auto-pilot" rate hike schedule that Fed chair Jay Powell's likely to follow through on, the bull's life could realistically be cut short.

The probability of the Fed overshooting is high, as it pulls out all the stops to fight off inflation, so it'd be prudent to avoid buying cyclical growth stocks like **Shopify** and instead opt for defensive dividend-growth stocks like **Waste Connections** (TSX:WCN)(NYSE:WCN).

With a forward P/E of 20.7, Waste Connections isn't exactly a value stock, but given the recession-proof nature of the solid waste collection and recycling services, the company will be able to offer investors superior growth and dividend growth independent of the state of the economy. The all-weather growth name is a cash cow that's a must-buy on any dip caused by exogenous factors.

Foolish takeaway

Should Foolish investors buy the recent dip? Yes, but in order to minimize the possibility of further downside, investors should opt for non-cyclical stocks with more modest growth profiles. Moreover, investors should nibble incrementally on the way down rather than doing all their buying at once in an attempt to time the bottom.

Nobody can time the bottom with precision, so make sure you spread your buying across quality blue-chip names with a preference toward out-of-favour defensive dividend stocks.

Stay hungry. Stay Foolish.

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