3 Things You Should Be Doing When the TSX Index Turns Red

Description

Unless something completely extraordinary happens before the markets close on Wednesday, October stands to mark the third consecutive month of losses for the TSX Index, Canada's benchmark for publicly traded stocks.

The TSX is down 7.33% for the first four weeks of the month and now sits well below its 200-day trading average, a bearish indicator for stocks.

However there's still plenty that investors can do to outperform the TSX.

Trim your winners

Let's not forget that the current bull market is one of the longest in stock market history.

Some tech stocks have performed incredibly well over the past 10 years, including e-commerce innovator **Shopify** (TSX:SHOP)(NYSE:SHOP). SHOP stock owners have seen the value of their investment rise 600% since its IPO in 2015. However, like the TSX, SHOP stock has also fallen below its 200-day trading average in October.

If volatility continues to wreak havoc on the markets, SHOP owners may want to trim their positions a little and lock in some of those gains. That's not to say Shopify still isn't a good investment today — far be it from that.

But when investors start to get bearish about the stock market, they tend do two things. One is to sell their winners and, in doing so, turn some of their unrealized gains in to cold, hard cash. The other is to de-risk their portfolios, shedding stocks with more speculative aspects in favour of those that pay attractive dividends to their shareholders.

Take on a more defensive posture

The stock market tends to be forward looking for how the actual economy is doing. So, even though unemployment remains low and inflation is relatively in check, October's volatility could in fact be revealing clues about things we haven't seen yet.

If the economy were to experience a slowdown or some kind of setback, investors are apt to put a premium on more defensive companies.

Defensive companies are generally those whose businesses aren't as subject to the pace of economic growth and transient variables like discretionary spending.

BCE (TSX:BCE)(NYSE:BCE) would be a prime example of a defensive stock.

The services the company delivers to its customers — things like phone services, including mobile and telephony, broadband internet, and pay TV are generally "sticky" in nature; this means that if you don't get the bonus you expected this year from your employer, you're more likely to hold off on that vacation you've been planning rather than downgrade the wireless plan for your mobile device.

On top of that, BCE stock is yielding 5.86%, so, in theory, shareholders should get the benefit of any "flight-to-safety" trade should there be one, as discussed above.

Average down

Simply put, don't get cute and try to "time the market." That has historically — and statistically — proven to be an approach that simply does not work nine times out of 10.

Instead, take advantage of the opportunity to load up on the great companies that have become available over the past month or so.

Investors will want to learn the basics of how a dollar cost averaging strategy works and the benefits it can offer them.

Fool on.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners
4. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners
4. Tech Stocks

Tags

1. Editor's Choice

Date
2025/08/27
Date Created
2018/10/31
Author
jphillips