Beginner Investors, Don’t Panic: The Market May Be Just 1 More “Big Vomit” Away From a Rally Back to All-Time Highs

Description

Good riddance, October!

A lot of wealth was lost over the past month, but while other investors are licking their wounds, you should be getting ready to put your cash reserve to work, because it’s times like these (when it seems like the sky is falling) when tremendous wealth is made in the stock market.

Now, I’m not a perma-bull by any means, as I’ve been warning investors all year not be overly bullish on Trump’s stimulative fiscal policy and the positive implications on the economy and earnings results in aggregate. I’ve urged investors to raise cash and seek shelter in defensive dividend-paying stocks, because I thought another correction was inevitable given the excessive euphoria exhibited by folks on the Street.

Many new investors dipped their toes into the markets for the first time over this year, drawn in by the overly bullish sentiment with terms like “market melt-up” being coined. It was those terms that caused such beginners to exhibit the fear-of-missing-out mentality and plop down a huge chunk of their wealth at a time that seemed like everybody was getting a free lunch.

Today, the Fed has stolen everybody’s lunch money away with its fast-and-furious rate-hike schedule, and both the S&P 500 and the TSX have fallen into correction. Indeed, it’s a very tough time to be a new investor when the markets can turn on you at a whim. Although scary, it’s a valuable lesson that today’s new investors will never forget. Being greedy at a time when others are greedy is a sure-fire way to lose your shirt and your wits if you’re still learning the game.

I don’t want new investors like millennials to be ill-prepared for the ugly days of the market, because it’s clear that many of them are still investing with the unrealistic assumptions in mind. While a smooth ride up may seem like an opportune time to plunk down a considerable amount of wealth in the markets, unseen bumps in the road that lie ahead have the potential to be absolutely vomit-inducing!

As chief Fool David Gardner once said: “Stock prices tend to fall faster when they rise, but they tend to go up more than they go down."

2017 was a year that saw an abnormally low amount of volatility, with stocks going up, up, and away. There was no correction, which is supposed to happen every single year on average. This year, I believe, made up for last year's euphoria with two corrections in the S&P 500, and I think they'll remain as corrections and not evolve to become bear markets.

Why so bullish?

Mr. Market (the S&P 500) is just one more puke away from hitting the support levels we've bounced off of earlier in the year. From a technical perspective, it does appear things are less gloomy as they may seem with markets closer to bear territory than they are from the top! I think we're 90% done with this pullback, and from a macro perspective, I fail to see anything as ugly as the insidious housing market prior to the Great Recession.

The economy is still strong. It's not as strong as the Fed may believe and not as strong as it could be if Trump trashed his trade war with China, but it still looks like the bull could live longer and break more records with regards to its age.

Even if you're not in the bullish camp, you should still be buying stocks if you're overweight cash. Don't go and catch a falling knife though. Start safe and buy low-beta stocks like those within the **BMO Low Volatility CAD Equity ETF** (TSX:ZLB), or better yet, buy the ETF itself as you conservatively nibble away on the dip.

Foolish takeaway

Stocks are on sale, and I don't think this is the end.

We could realistically break all-time highs as early as this winter, so don't sell all your stocks just yet as you give into the recession predictions of some of the talking heads on TV that just want to scare investors, so they can nab a better deal for themselves.

If the volatility bothers you, there's absolutely no shame in going with a low-volatility play like the ZLB. I've personally been rotating out of cash and into the ETF for low-beta exposure to some of Canada's most promising defensive powerhouses.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:ZLB (Bmo Low Volatility Canadian Equity ETF)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/08/24
Date Created
2018/10/31
Author
joefrenette