The TSX Index Looks Poised for a Massive Relief Rally in 2019

Description

Santa finally arrived bearing gifts, but only for the patient investors who were willing to wait for him after Christmas had drawn to a close.

The U.S. markets posted their best single-day trading session ever on Boxing Day with the Dow skyrocketing nearly 1,100 points, or 5%, just two days after the worst Christmas Eve recorded in history.

It's been quite the historical month, but unfortunately for those who threw in the towel during the Christmas Eve bloodbath, they missed out on a historic upward surge (the Boxing Day Bounce) that we probably haven't seen the last of. Santa came late this year, bearing gifts only for those patient enough to wait for him. If you went home, you went away emptyhanded in what was the biggest up day in recent memory.

This goes to show that timing the markets is a fool's game (that's a lower case "f"!), and that all it takes is missing a single up day to spoil your money-weighted returns severely. Nobody saw the 5% single-day surge coming after the December selling spree — the ugliest since the Great Depression. So, if you're one of the folks who sold after the U.S. markets fell into bear market territory on the advice of fearful pundits, you're probably feeling frustrated at Mr. Market's crazy moves right about now.

You see, massive bounces typically follow prolonged periods of selling activity, after rational investors begin to recognize the markets are oversold and their initial fears were exaggerated or unwarranted. Some of the biggest up days in history were surrounded by some of the biggest down days, so you're not going to want to jump out of the markets after a few days in the red, because odds are, you'll be jumping out at a time of maximum fear — a time when the markets could easily turn sharply without warning.

At the time of writing, the TSX is down 16% from its peak. With nothing but pessimism baked in to sentiment, sellers could soon find themselves out of reasons to continue to continue ditching their stocks to the curb. The bar has been set so low such that any piece of a mildly positive news will be enough to trigger a buying spree, fuelling major bounces in unsustainably undervalued stocks like **Canadian Imperial Bank of Commerce**

(TSX:CM)(NYSE:CM), which currently sports an absurdly high 5.4% dividend yield — the highest it's been in recent memory.

While CIBC's dividend and valuation multiples could certainly continue retreating if the market crash gets bloodier, investors need to remember that the stock is trading at a historical low point through no fault of the company itself. Thus, nibbling away at the dip, while a seemingly reckless move over the short term, will literally end up paying massive dividends in the grander scheme of things.

Could CIBC post a 13% yield, as it did during the bottom in the Financial Crisis?

In theory, it could, but this isn't the question that investors should be asking themselves, as the probability of such a collapse is low, especially given the fairly healthy state of the North American economy. If you waited for the 13% yield to buy, you could risk waiting forever, as you pass up on magnificent buying opportunities where CIBC's yield is already substantially higher than where it's been historically.

Both CIBC and the TSX are undervalued right now, so don't feel the need to wait for some arbitrary absolute figure before you start buying. Buy now and be ready to buy more should the markets get cheaper; otherwise, you're risking potential upside by waiting too long, potentially missing out on dip-buying opportunities that'll vanish at a whim.

All it takes is one or two days, and the deals on the TSX could vanish.

Two +5% Boxing Day bounces later, and all the bargains you see now could be gone. Seize the opportunity at hand today and stop worrying about when the bottom will be, because you'll either drain your cash reserves too early or miss the dip entirely.

Stay hungry. Stay Foolish.

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