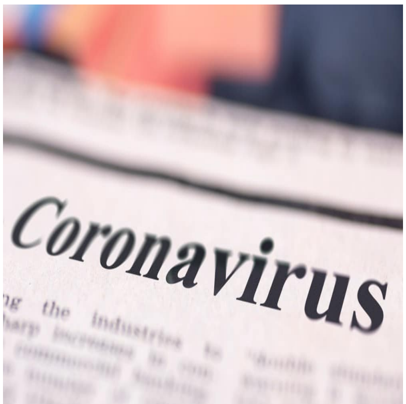

3 Signs of a Market Bottom

Description

It's one of the first rules of investing you're likely to hear: buy low, sell high. When you see the market bottom out, you buy up. When those stocks soar, you sell.

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Well if that's the case, what on earth were we supposed to be doing these last few months?

As the **S&P/TSX Composite Index** (TSX:^GSPTSE) continues to jump up and down like a drunk yo-yo, I can only imagine that investors are starting to feel some motion sickness. After hitting an all-time high of $17,970.50 back in February, the TSX has since plummeted 36% as of writing. Yet in the last month alone, it has fallen and stabilized a remarkable *six* times.

Yep, I'm definitely starting to feel drunk — and not the good kind either, the cheap wine kind.

While I'd never recommend to buy a stock hoping to make significant gains in the short term, I can understand in this roller coaster market why an investor would want to wait for a market bottom.

Who knows when the COVID-19 crisis will end? Who knows when Russia and Saudi Arabia will decide to pull back oil production? Who knows when the markets will rise once more?

With all these questions, it can be incredibly hard to make an investment knowing that those stocks will likely fall over the next few months. So with that in mind, here are some signs a market bottom could be on the way.

The bad news keeps coming

Analysts have been saying for well over a year now that a recession — or at least a bear market — was on the way. Well, that day is here. Yet there are still other analysts out there that believe a recession might be avoided in Canada, and that we may just see a bear market.

When the market bottom comes, analysts across the board will pretty much all be saying expect the lowest prices yet. Everyone will want to announce how right they were when that bottom arrives, so expect to hear it just about everywhere. When that happens, watch out for a drop in stock price.

Same-day sale

This has already happened a number of times. Stocks sink lower and lower and then suddenly — poof! Out of nowhere, investors saw the sale price they wanted to see and bought in bulk.

So what started out with a significantly low share price has turned into a gain by the end of the gain. You can see this happen again and again on the **TSX** over the last month.

When this starts to happen to multiple stocks repeatedly, you can be sure the market bottom is almost there. As those investors see their number reached, you can be sure the market bottom isn't too far off.

The VIX Index

The **Chicago Board Options Exchange (CBOE) Volatility Index** is basically a fear gauge. The index looks at the next 30 days of the U.S. stock market and attempts to look at volatility. Investors and analysts can look at the VIX Index to see what the markets might do as fear, risk, and stress flood the markets.

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How it works is the higher the VIX index goes, the higher the fear of investors. In January, it was at a 12. As of writing, it's at a whopping 65.77. If you look back to November 2008 as a comparison, the VIX jumped to an 80.

So today we aren't that far off. The closer we get to that number, the more likely it is we've reached that market bottom as we top out on fear. Therefore, that makes the VIX index likely the best way to predict that market bottom.

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