TSX Investors: Beware the Bull Trap

Description

The S&P/TSX Composite Index rose 231 points on March 26, thrusting the index back into a technical bull market. This comes after one of the fastest falls into a bear market in history. The phrase “bull trap” started sprouting up this week. What are investors to make of this stunning volatility?

Watch out for a bull trap

A bull trap is an inaccurate signal that shows a decreasing trend in a stock or index has reversed and is now headed upwards. However, the security or index will, in fact, continue its downward trajectory. This deceptive pattern can lead many investors to enthusiastically jump into a security or index that is not yet on the recovery path.

United States indices have also enjoyed a massive uptick over the past week. Markets were encouraged by the $2 trillion stimulus bill that was pushed through by the U.S. Senate. Trump economic advisor Larry Kudlow has projected that the stimulus could reach $6 trillion or above when all is said and done.

The U.S. reported 3.28 million unemployment claims over the past week, which shattered the previous record of roughly 700,000 set in the early 1980s. This stunning report illustrates how catastrophic the broad work stoppage has been on the ground. Meanwhile, Canada reported one million jobless claims over the past week.

There is no indication as to when governments plan to scale back on nationwide lockdowns. A months-long shut down will push more Canadians to the unemployment line, and it threatens to worsen the long-term damage of this stoppage. These are all factors investors need to consider at this stage.

Consider dollar-cost averaging in this market

Earlier this month, I’d discussed how investing legends like Warren Buffett have navigated a bear market. The best play right now is to mimic Buffett’s investing style; seek out value. Top Canadian banks have plunged to favourable prices in recent weeks. The oil and gas sector remain in crisis, but top Canadian energy stocks like **Enbridge** and **Suncor** are mainstays to count on.

To combat near-term volatility, investors should adopt dollar-cost averaging (DCA). This way, investors can reduce the impact of volatility that will likely result in this shaky environment. If you are sitting on a lot of cash, it can be tempting to pour it into what looks like a discounted market. However, adopting DCA allows you to scoop up bargains while also guarding against turbulence.

Stocks to watch today

As I'd stated, there are some tasty discounts in Canadian banks right now. **Canadian Imperial Bank of Commerce** stock has dropped 22% month over month as of close on March 26. It boasts a very favourable price-to-earnings ratio of 7.2 and pays out a quarterly dividend of $1.46 per share. This represents a tasty 7.1% yield.

Air Canada is another stock that is well suited for this strategy. The airline industry will eventually recover, but its bottom line will be hit hard by this crisis. Air Canada is the best of the bunch here at home. Its stock has plunged 48% over the past month.

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