Market Bounce: Should You Take Profits After a 26% Rally in the TSX Index?

Description

What a market bounce we just had. I imagine that many investors are breathing a collective sigh of relief after the **TSX Index** just posted one of its best weeks in recent memory, now up over 26% from its March 23 bottom.

The volatility has begun to ease. And there's no doubt that many rattled investors are eager to buy back into stocks again. While it may seem safer to chase stocks on the way up rather than attempting to catch falling knives on the way down, investors need to realize that another wave of unprecedented selling could just be around the corner.

Market bounce: Don't go all-in on a V-shaped recovery

We *all* want a V-shaped market recovery, but there's a real chance that we may not get one. The average bear market tends to be measured in months and not weeks. As such, it's vital that investors don't chase stocks after a historic bounce, even though there's still plenty of value out there.

If you see a deep value bargain, go ahead and scoop it up. But don't become euphoric and exhaust your cash reserves by buying everything in sight at once for fear of missing out on a V-shaped recovery to the top. Stocks could retest their late March lows as the curtain is pulled on what could be some pretty hideous numbers.

Did Warren Buffett just trim on the market bounce?

So, be like Warren Buffett and stay patient because this bear market may not be as easy to tame as it seems after the market bounce. It'd be foolish (that's a lower-case "f") to assume that the worst is over given the possibility of a coronavirus resurgence that could turn the expected mild recession into a depression.

Moreover, the fact that Warren Buffett is trimming his airline stake on the market bounce indicates that he's gearing up for another tumultuous next few months. Buffett is in for the long game, so you can be sure that he's not going to chase a market bounce with all the uncertainties in today's market.

Should you do some selling after the recent market bounce?

Unless you don't have enough cash to meet your monthly expenses, I'd resist the urge to sell stocks on the bounce. However, I'd also discourage excessive buying with the belief that the new bull market will leave this coronavirus crisis behind.

The most prudent way for beginner investors to navigate this bear market is to acknowledge that they're unable to predict what's going to happen next with the coronavirus and just buy systematically over time.

If there's a market bounce, great. But don't feel obliged to buy for the fear of missing out a "free ride" back to the top. Dead cat's bounces happen — and hurt many beginner investors who make investment decisions based on emotion.

Foolish takeaway

It is possible to be *too* greedy, even in a bear market.

Rather than trying to figure out the perfect spot to get in (or out) after the latest market bounce, consider dollar-cost averaging incrementally on the way down, so your you'll be able to get through this bear market without getting mauled.

If you lack liquidity, you may want to trim a bit of your least-loved holdings on the bounce. But don't do anything drastic and be ready for whatever pitch Mr. Market throws at you next.

Stay hungry. Stay Foolish.

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