Harsh but True: You Missed Your Chance to Buy the Dip

Description

In June, stocks are again on the rise following a stock market rally that began in mid-April. With momentum moving in the direction of re-opening after COVID-19 lockdowns, investors are betting on a strong economic recovery. As of this writing, the **Dow Jones Industrial Average** was down just 5.25% for the year; earlier in the year it had fallen as much as 37%.

As a result of the rally, stocks are more expensive than they were before. While we're still down from all-time highs, earnings are down more, so stocks are much more expensive relative to fundamentals. Not only that, but there don't appear to be any major dips coming.

With economic data improving, stocks will likely rise or trade flat until the next crisis. Basically, if you were hoping for a bigger dip before buying, you've missed the opportunity.

Here's why.

Markets priced in the recovery early

Markets were incredibly swift to price in the effects of the COVID-19 re-opening. As early as April, stocks starting moving decisively upward. In June, they're only down 5% from all-time highs. This shows that the markets are already betting on recovery — and they're probably right.

The most recent jobs reports from the U.S. and Canada showed massive gains, with U.S. unemployment actually dropping. If there's no second wave, there probably won't be a second COVID-19 related stock market crash.

Positive earnings surprises

In addition to the fact that the economy is recovering, we've also seen some surprise earnings beats.

The Canadian National Railway (TSX:CNR)(NYSE:CNI) was one example. In the first quarter, its revenue was flat, while earnings increased 31% year-over-year. This came as a surprise to many, because CN had been reporting weekly carload declines all through Q1.

The beat was attributable to lower costs and higher freight rates. So even with less demand for goods, CN was able to post growing profits. This points to the possibility of even bigger gains in future quarters–particularly Q3, when the lockdowns will be far in the rearview mirror.

Shopify Inc was another company that posted a surprise earnings beat in Q1. After suspending its guidance, it released a surprise report showing that it had grown revenue by 47% and adjusted earnings by 210% year over year. Both figures were completely unexpected.

However, they were in keeping with the general trend in tech companies, which fared better than most companies during COVID-19.

Foolish takeaway

If you were waiting for a second dip to buy stocks, you've likely missed the opportunity. While the stock market will crash again some time in the future, we've probably seen the last of the COVID-19 dips. That doesn't mean it's not a good time to buy.

If the economic recovery continues, we may see even more gains. But you'll have to buy in at higher prices for the foreseeable future.

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