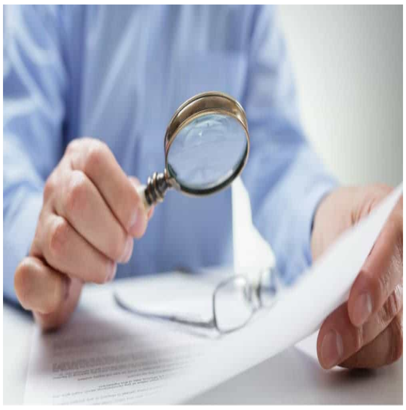

Fear or Greed? Here's What's Happening in the Stock Market Today

Description

It might surprise investors of a more cautious stripe to know that the market sentiment right now points towards greed. That makes this a good time to trim positions that haven't been bearing fruit. Why? The market is expecting an end to the pandemic. At this stage, vaccine bulls are eyeing a recovery in the economy that could prove infeasible in the near term. In short, investors could very well be looking at the top of the market.

Beware a dose of reality in the vaccine bull market

The **TSX Composite Index** has been positive by 2.7% across the last five days of trading. Until the weekend just passed, the index had gained over 9% in four weeks. This is a mind-boggling place for the TSX to be considering the events still unfolding in the world at large right now. From a ratcheting global health crisis to political violence in the U.S., nothing about the current affairs landscape suggests a bull market.

The danger is that, with a recovery baked in, a bubble could be inflating. The pin could be anything from tightened pandemic containment measures to geopolitical unrest. One should also be prepared for a wildcard, such as a natural disaster. With attention focused like a laser beam on the pandemic, any additional crisis is liable to trigger a market crash. Even a single sobering economic report could trigger a selloff.

There is every possibility that the markets will continue to chug along at their current breakneck pace. Of course, this would ramp up the danger of overvaluation, increasing the risk of a sharp contraction. But it could also generate the kind of unstoppable momentum that characterized last year's performance of equities. Either way, this is the correct market to begin freeing up liquidity.

Optimizing a stock portfolio for wildcard risks

Just as a bear market throws up buying opportunities, the current bull market is ripe for selling. From cannabis to tech, there are any number of overvalued names that could underperform in the next 12 months. By trimming such high-risk areas as cannabis, for instance, investors can strip some fat from a TSX stock portfolio. This week, **Village Farms**, **Cronos Group**, and **Trulieve** are all selling at year-long highs.

Conversely, positions to add to include the tried-and-tested dividend studs. While banks are vulnerable to economic stress, some are a lower-froth play than others. Consider **Scotiabank**, whose shares are currently trading with very little momentum. Diversified across an impressive range of international markets, Scotiabank also pays a rich 5.3% dividend yield with a reasonable 66% payout ratio. All told, Scotiabank is a go-to for regular and predictable passive income.

By definition, it is, of course, next to impossible to insure one's portfolio against black swan events. However, it's also important to remember that the current situation is extremely vulnerable to further unforeseen disruptions. Be it a natural disaster or a diplomatic emergency, the global economy is currently wide open to an unforeseen risk. That makes adding low volatility, curveball-proof names to a TSX stock portfolio a smart move right now.

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