



Stock Investing: 3 Ways I Time the Market to Enhance Wealth Creation

Description

Some investors would say to focus on time in the market and forget about timing the market. In other words, focus on investing for the long term and compounding your returns over time instead of trying to get the best prices on your stocks.

I think time in the market and timing the market can both help investors achieve greater long-term returns. As I have already written an article today essentially about time in the market, I'll focus on three ways I time the market in this article.

Buying on market corrections

Market corrections of about 10% are more common than market crashes of 30-50%. During the pandemic market crash of 2020, the Canadian stock market fell more than 30% from peak to trough.

It was a great opportunity to scoop up shares of wonderful companies. You need not buy at the very bottom to make nice gains. You just needed to buy when shares were trading at good valuations.

For example, last year, [Toronto-Dominion Bank](#) stock fell below \$50 per share. But even if you bought shares at \$60, you would still be sitting on some very solid gains of +24%. By buying it at a low, you would have locked in a juicy perpetual passive-income stream.

As long as you're not sitting on mostly cash to wait for a market crash, I don't think market timing is such a bad thing. In fact, I think it's absolutely normal and probably desirable to have some cash on the side, waiting for deployment in market corrections or dips in stocks.

Buying on stock dips

Dips in individual stocks are much more common than market corrections or market crashes. After all, stocks are innately volatile. They can fall or rise meaningfully on macro, industry, or company news. Heck, sometimes they would move even with no news at all!

Personally, even accounting for commission fees, I find that building a position in a stock over several months usually leads to an overall lower average cost basis due to stock dips.

That said, I will not hesitate to start a position in a newfound quality company that is trading at a reasonable valuation.

Buying on stock pops?!

New investors may refuse to pay shares for more than they initially bought shares. However, a good company will become more valuable over time, which should lead to a higher stock price.

Moreover, in my many years of stock investing, I have come to realize that it could be a good thing to buy as a stock is heading higher.

For example, when I traded [H&R REIT](#) in 2020, I started a position when it was super cheap at \$9.25 per unit. I added to it at \$12.12 per unit when I noticed the market was bidding it higher. Finally, I sold out of the position at \$14.41 for some nice price appreciation when it appeared to be losing steam.

Another example is when the stock of a wonderful company consolidates, while it continues to perform and increase earnings. For example, **Microsoft** stock traded largely in a sideways channel for about 10 years before finally breaking out in 2013/2014. The transformation to cloud offerings also led to amazing multibagger returns after that.

When the stock was breaking out, investors could have viewed it as a sign, reviewed Microsoft's fundamentals, and bought shares, which would have led to five times their money in a little more than six years.

Stock pops or breakouts are not an automatic sign to buy. However, it's a signal that you can act on by reviewing company fundamentals and valuations to see if it makes sense to buy.

The Foolish takeaway

Time in the market — investing and staying invested in quality companies for the long term — will allow you to get rich. Timing the market by buying on stock dips, market corrections, and even when stocks pop can enhance your wealth building.

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