Beginner Investors: Here’s What I’d Do As Treasury Yields Surge

Description

The surging 10-year U.S. Treasury bond yield has caused considerable pressure on growth stocks of late, with the **NASDAQ** 100 falling into correction territory (10% drop) last week. The value-heavy **S&P 500** and **TSX Index** held their own rather well, but if you’re like many beginner investors who may have overweighted themselves to momentum and sexy growth stocks, last week’s sell-off likely felt a heck of a lot more painful than it had to be.

Cathie Wood’s tech-centric **ARK Innovation ETF** crashed over 25% over the past few weeks. And while there’s no telling what growth’s next move will be, new investors ought to think about re-evaluating their portfolios so they’re better prepared if a worst-case scenario unfolds and the bond yields continue to weigh heavily on growth stocks through year’s end.

Growth-heavy investors take a big hit on the chin

While I wouldn’t advise ditching growth and tech for value and cigar-butt stocks in anticipation of even higher bond yields, I would encourage beginner investors to position their portfolios in a way such that they’ll be fine with whatever outcome comes up next. The stock market is unpredictable, as is the bond market. As such, beginner investors would be wise to put themselves in a spot to be agile enough to dodge and weave any further punches thrown by a Mr. Market who’s always so full of surprises!

Bond yields could continue their ascent to new heights, and growth stocks could continue to crumble like a paper bag, wiping out the big gains posted in 2020. On the flip side, bond yields could easily retrace, causing a big relief rally in some of the hardest-hit growth stocks over the past few weeks.

At this juncture, U.S. Federal Reserve chair Jerome Powell isn’t yet ready to step in with some sort of monetary policy to curb long-term bond yields and soothe stock investors. And the markets could continue putting up a fit until bond yields retreat on their own or the Fed announces initiatives to policy temper the bond market.

Could the pain in growth stocks just be starting?

Some pundits think this uptick in bond yields will be short-lived. Others, including the likes of analysts at **Goldman Sachs**, think that bond yields could rise as high as 1.9% by year's end.

At the time of writing, the yield on the 10-year is sitting just under the 1.6% mark. A further uptick in yields could easily bring forth even more pain in the biggest growth winners of 2020. So, if you've doubled your money many times over last year on sexy tech stocks like **Shopify** and it's become an overwhelmingly large position, you should think about taking at least some profits off the table, especially if you're light on cash.

Sure, it's tough to break up with your biggest winners. But beginner investors mustn't let any single stock or "flavour" of stocks overrun one's portfolio, leaving one unknowingly exposed to amplified downside risks.

Foolish takeaway

If you're a beginner investor who's felt more damage than the TSX Index or even the NASDAQ 100 over the past two weeks, it may be worthwhile to reposition your portfolio so you won't be caught offside if this growth sell-off isn't yet over.

While ditching growth stocks could cause you to miss a sudden bounce back in your growthiest holdings in a bond yield retracement, I'd argue that it would be far more painful to have to endure amplified damage in a continued plunge with zero cash to take advantage of incredible buying opportunities.

While you shouldn't overreact over the whole ordeal, do take profits where profits still exist.

CATEGORY

1. Investing
2. Personal Finance

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Personal Finance

Date
2025/07/29
Date Created
2021/03/08
Author
joefrenette