Don’t Mistake a Market Correction for a Market Crash

Description

The year 2021 has so far proven to be far better for the stocks market than earlier expected. After facing big troubles in 2020, the economic growth is gradually coming back on track. This is one reason why Canadian companies across industries have seen significant improvement in their near-term growth outlook — triggering a rally in their stocks.

However, stocks turned slightly negative last week — fueling investors’ fears about a market crash. I prefer to call it a healthy market correction, though. Let’s take a look at why this market correction is necessary and how investors can benefit from it.

Canadian stock market rally in 2021

The market started 2021 on a mixed note as the **TSX Composite Index** fell by 0.6% in January. But in May, the index posted its fourth consecutive monthly gains — reflecting optimism. In the first quarter, stocks from healthcare, energy, real estate, financials, and industrials staged a rally.

The Canadian market benchmark has already risen by 15% year-to-date, with many stocks entering the overbought territory. It’s natural to see a short-term downside correction in the middle of a long-term market rally. Such corrections not only help stocks remain near their fair value but also allow investors to buy their favourite stocks cheap.

It might not be a market crash

Some bears argue that factors like surging stocks amid rising inflation could be pointing towards the possibility of a market crash. However, I don’t think rising inflation could solely trigger a big market crash as long as the earnings growth outlook for most businesses remains strong.

Moreover, analysts are continuing to revise their earnings growth forecasts up for most companies — raising the possibility of a continued recovery.

Easing restriction after the pandemic phase, surging economic activities, improving business growth outlook, and rising consumer confidence are some of the factors that could justify recent record gains in the stock market. That's another reason why I believe investors could consider the ongoing market correction an opportunity to buy stocks on a dip.

Which stocks to buy

Many stocks from the energy and mining sector stocks saw a sharp rally earlier this year. Some of these stocks look overvalued at the moment and might face the heat if the market correction continues in the coming months. However, some fundamentally strong tech stocks have largely remained underappreciated this year.

For example, **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Lightspeed POS** (TSX:LSPD)(NYSE:LSPD) traded on a mixed to negative note in the first five months of 2021 — underperforming the market.

In contrast, these two tech stocks staged a big rally last week when the market saw a downside correction. I consider the rally in these stocks has just started. Shopify Stock Rose by 20% last week after it announced its Shop Pay-related deal with **Facebook** and **Google**. Meanwhile, Lightspeed stock posted over 13% gains last week.

To avoid downside risks to their portfolio, investors can buy such tech stocks right now. Shopify is expected to report more than 50% sales growth in 2021, while analysts see Lightspeed's sales to more than double for the year.

I expect both companies to continue benefiting from robust demand for e-commerce platforms in the near to medium term. These positive factors could drive a big rally in their stocks — making them worth buying despite a stock market correction.

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