



TSX Composite Index at an All-Time High: How to Make Money in This Market

Description

The **TSX Composite Index** is at an all-time high, as it rides the Santa Claus rally. If you are new to the stock market, there is a common behaviour the market shows: the market usually goes through a rally period during October's end to December and maybe January if things go well, and then there tends to be a correction in February and March. There tends to be another rally around May to June and another correction around September.

Stock market volatility

Now, the market may not follow the above pattern every year. Macroeconomic events influence the market forces of demand and supply. For instance, the United States-China trade war pulled the market down between October and December 2018. The trade war had a significant impact on the tech sector. It disrupted the global tech supply chain, sending a wave of bearishness in most large-cap tech stocks.

It comes as no surprise that Warren Buffett [upped his stake](#) in **Apple** in early and mid-2018 and did not sell it, even after the stock fell 32% in the last quarter of 2018. This is the technique I will talk about in this article.

In an ideal world, the stock market would follow small dips and rallies, as investors put in money and cash out. But the future is unpredictable and prone to natural and man-made events not under anyone's control. These uncertainties create volatility and an opportunity for the wise and the learned to make money.

How not to lose money in stocks

Before I discuss the strategy to make money in the current market, you should know how not to lose money. It is easier said than done, but don't buy the rally or sell the dip on a stock you know has a future. Market noise and short-term events tend to pull down the stock of a good company. For instance, a negative report by short-seller Spruce Point pulled **Lightspeed** stock down 47% near its [52-week low](#)

. Then the pandemic wiped off 75% value for **Air Canada** in a matter of days. The first scenario is an example of noise and the second is an example of a major event.

There are also instances where the stock rises to unprecedented levels, creating a bubble. Investors went on a buying spree during the 2000 dot.com bubble, the 2008 financial bubble, and the 2015 crypto bubble. These stocks got more money than they could handle, inflating the stock prices to sky-high valuations. Hence, value investors like Buffett stayed away from high-valuation stocks. You never know when the bubble will burst. This year, the stock market saw a new breed of traders, the Redditors who played the game of the short squeeze to make money from [short-sellers](#).

In both scenarios, the “buy the dip and sell the rally” rule applies, provided the company has the potential.

How to make money in the current market

At present, the stock market is riding the recovery rally as well as the Santa Claus rally. The recovery rally is where stocks significantly hit by the pandemic are seeing a recovery. Some of these stocks are **Suncor Energy**, Air Canada, and **SmartCentres REIT**. I would suggest staying away from these stocks. They are galloping at 18-20% growth, but this growth will normalize or go negative. Then you will be stuck with a stock with no capital appreciation. The above stocks are not bad, but the timing is not right. The right time to buy them is in a correction.

Then there is a Santa Claus rally, which is an annual thing. Stocks like **Shopify** and **Descartes Systems** rally due to the holiday season but tend to collapse in February-March. It is not too late to jump into the rally and make some short-term gains, but I would buy these stocks in March and sell them in December for higher gains.

Is there nothing to buy in the current market? The overall market is bullish, but one stock is still trading below its 52-week high. **Dye & Durham** posted strong earnings on November 8, reviving investors' confidence in the cloud technology solutions provider. It is a company with stable cash flows, strong profits, and growing revenue; hence, it is a buy.

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