



Could Thursday's Big Turnaround Mark the Bottom?

Description

[Valuations](#) were pretty stretched going into 2022. Market correction calls have been ongoing ever since the bull market started back in early 2020. Indeed, it seems like such a long time ago. With a new crisis going on in Ukraine, the level of fear has taken it to the next level, as has volatility. Indeed, volatility can work both ways, as we witnessed during Thursday's powerful market turnaround. Can it be trusted as some sort of bottom? Or will Mr. Market pull the rug from underneath investors, as the bear readies to emerge from his cave for the first time in two years?

Indeed, Thursday's turnaround is a promising signal. The Ukraine invasion is dire, and it could worsen. That said, there's also a chance that the conflict could be resolved sooner than anticipated. In short, nobody knows what to make of the black swan event. That's why I think investors should not treat the Thursday turnaround as some sort of bottom. Instead, investors need to maintain discipline. Like it or not, bull traps exist, and that's why you should never exhaust your liquidity reserves all at once.

Yes, inflation may justify getting out of cash and fully invested in equities. However, by doing so, you'll leave yourself unable to buy stocks on further weakness. Indeed, another black swan event can happen next month. Market strategists simply do not know the full extent of what the future holds. With that, investors need to acknowledge what they do not know and prepare accordingly with a Plan B, which includes a decent cash position and low-volatility securities.

Does **Bitcoin** deserve a spot in a portfolio? Probably not, given its volatility during turbulent markets! If anything, I'd consider Bitcoin to be more of a gauge of speculation, rather than of those seeking to hide from safety.

So, how should investors react to Thursday's big turnaround?

Arguably, investors should not feel the need to [rush](#) in, willing to load up on anything in anticipation of a sharp market rally. Remember, the Ukraine-Russia crisis may be just beginning. Things could get really ugly, and the markets could easily fall into a bear market if the conflict escalates. For now, investors are applauding sanctions. But should they be? What if sanctions are just a first step? It's impossible to know. That's why chasing rallies — even single-day ones — can be a dangerous

proposition that can lead to almost immediate pain.

Indeed, many pundits have been dismissive of the recent geopolitical tensions. Could investors be overly optimistic? It's tough to say. Regardless, it'd be wise not to discount risks on the table. That said, I wouldn't look to sell this bounce either. Instead, I'd look to buy stocks that are trading at a discount to their true worth.

Think names like **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)), which is built for an environment like this one. If the markets fall further, odds are that FTS stock will fall to a lesser extent. Further, there's the great dividend that's likely to grow at a solid single-digit rate over time. Indeed, cash flows will still continue flowing in, regardless of how bad things get. For that reason, the stock ought to be held at the core of any portfolio that seeks to thrive in a market where choppy moves on the day to day are the new normal.

Bottom line

Don't try to predict the outcome of exogenous black swan events. Nobody can do this. Instead, invest in diversifying your portfolio and adding to holdings where there's value to be had! It's that simple. Don't overreact to rallies or plunges by chasing intraday moves or dumping on vicious plunges. Stay the course and be ready for anything.

In short, I have no idea if the bottom was put in on Thursday. A day of action, no matter how shocking, shouldn't change your investment strategy or magnitude of bullishness.

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Author

joefrenette

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