A Growth Stock Market Correction Is No Time to Panic Sell

Description

It doesn't seem like we're in a bear market when energy, bank, and utility stocks are trading near or at their all-time highs. However, elsewhere in the market, the bear has shown up and wreaked havoc. The bear market in growth stocks is almost unnoticeable if you're invested in the overall market through a U.S. market proxy index like **SPY**, which has declined only 9% from its peak.

The Canadian market proxy index, **XIU**, has been even more outrageous, trading near its all-time high, as energy and other commodity stocks roar on. Of course, the financial sector heavy index is also holding up well with the strong performance of the overall banking industry.

Long-term stock investors would know that stocks from different industries take turns outperforming, which is why it's helpful to keep your stock portfolio diversified. It's not as safe to put new money in energy, commodity, bank, and utility stocks now as when no one wanted them.

For example, during the pandemic, **Toronto-Dominion Bank** stock fell about 30% from peak to trough to as low as $45 per share. It has since more than doubled by appreciating 118%. Even if investors played it safe by waiting for TD stock to base around $55 before buying, they would still be sitting on a gain of 78% and a yield on cost of almost 6.5%.

The bear market in growth stocks

The wind has turned. Growth stocks did ridiculously well during the pandemic through 2020 and 2021. Now, they have not only given up the gains but have also lost a lot of ground. Barry Schwartz is one of my favourite guests on *BNN*. Here's his latest comment on **Shopify** (TSX:SHOP)(NYSE:SHOP) stock:

> "COVID winners have become COVID losers. Shopify is not quite profitable. But if you think it will sell more stuff and add more services in three to five years, now's the time to buy.He's not negative about it."
> *Barry Schwartz, chief investment officer and portfolio manager at Baskin Wealth Management*

He also noted that everyone loved Shopify stock when it traded at $2,000 per share and now hates it at the $800 level. In hindsight, it's easy to see that there was euphoria in the growth stock at the high, and now investors simply turn away from growth names.

Another point Schwartz brought up is the multiples contraction in growth stocks. Investors paid too much for the stocks when things were smooth sailing. Some of these businesses gained a lot of business during COVID and that growth is quickly normalizing. So, their valuations are also reverting to the mean.

For sure, some growth stocks have gone down too much and have become attractive. But, of course, the market sentiment is still very negative surrounding these names, and no one knows when the market will favour them again. Investors need to be patient.

The Foolish investor takeaway

The market should reward patient investors. Schwartz warned that investors should not chase the names that are working now (and have appreciated a lot) and sell losers that seem to be broken. The sure way to make money, in the long run, is to buy great businesses when no one wants them.

I'll close off with Warren Buffett's famous quote:

> "Be fearful when others are greedy and greedy when others are fearful."
> *Warren Buffett*

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