How to Benefit From a Market Downturn: 1 Oversold ETF to Buy the Dip

Description

The year 2022 hasn't been a rosy one for the stock market. The market momentum has been bearish with steep dips on the Fed interest rate hike. The World Bank and all leading economists have rung the warning bell of stagflation and recession for the United States. A recession in Canada's biggest export partner could impact Canada as well.

The TSX Composite Index dipped 14% from its April high, as rising inflation and interest rate hikes put the U.S. consumer confidence index at its lowest since September 2008. This market downturn has created panic among investors. The next six to 12 months won't be easy, as the central bank pulls back stimulus money. The stock market could continue descending, falling as much as 30% by year-end if inflation doesn't ease. This market downturn has created an opportunity to make good money from investments.

How to benefit from a market downturn

It is not about timing the market but about time in the market. Don't wait for the stock to keep falling, thinking you will buy at the bottom. The trick is to buy these stocks systematically throughout the downturn and reduce your average cost.

For instance, **Descartes Systems** is a value buy. It was my top pick for May 2022. For instance, you invested $500 in Descartes on the sixth of every month through your Tax-Free Savings Account (TFSA) for three months. Your first purchase would be for $89.09 per share, the second for $74.55, and the third for $80.33, bringing down your average cost to $81.3. Here you are not timing the market, just going with the flow. When the stock recovers, you would benefit, as dollar-cost averaging reduces your cost.

A recession is a good time to invest in long term

The past four recessions have proved the dollar-cost averaging strategy efficient and successful. The 2020 pandemic, the 2008 financial crisis, the 2001 dot.com crash, and the 1990-91 recession all saw market dips of over 20% followed by a steep recovery that you won't see in a normal economy. Let's take the historical data of the TSX Composite Index:

- The index surged 24% in five years and 20-38% during the February to March 2020 crash. If you invested in the February dip, you have earned more than five years of returns in two years. Let's take a long-term scenario.
- If you bought into the index after the 2009 crash, the index has surged 100% since then. But if you bought the index during the 2007 bull market, the index has surged only 30%.

In both scenarios, returns were marginal when you invested in a normal growth environment. However, returns multiplied when you invested during the market downturn.

One oversold ETF to buy throughout the market downturn

The Canadian market could make a new low in June. This is a good time to buy a market ETF and book your spot in the recovery rally and long-term market outperformance with minimal risk. **Horizons S&P/TSX 60 Index ETF** (TSX:HXT) gives you exposure to the top 60 Canadian stocks by market cap. These stocks have a higher chance of recovering from a recession.

At present, the ETF is oversold. It is down 15.7% from its April high, and I expect it to fall another 15-20%. This is the time to start buying the ETF every month. The downtrend could continue to mid-2023 if inflation turns into a recession.

In 2015, the ETF fell by over 30% in eight months (May 15, 2015, to January 15, 2016). Those who followed dollar-cost averaging in the 2015 downturn have doubled their money today.

Hence, I suggest investing $1,000 in this ETF in five phases. Invest $200 now and get the ETF for $36 per unit. Invest the next $200 at $34, $32, $30, and $28. This will reduce your average cost to $32 per unit. Your money could double in the next seven years.

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