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Don't Try To Capitalize On Investor Fears - Market Timing Only Works In Hindsight

by [Richard Morrison](#)

The fact that October has Halloween at the end of it seems fitting, since October traditionally has been a scary month for investors. Standard & Poor's historical records show most major market crashes of more than 10% occurred in October.

The first came in 1929, when the Dow Jones Industrial Average fell 10% on October 24, another 13% four days later and finally, a further 23% the next day. The plunges, worsened by margin calls on investors who'd borrowed against the value of their stocks, erased about one quarter of the entire market's values within a week, while successive downturns meant nearly half of investors' money was gone within two months. Canadian stock markets in Montreal and Toronto fell along with the Dow.

While it wasn't the sole cause of the Great Depression, the stock market plunges were a major catalyst. Suddenly, your rich uncle wasn't rich, and citizens stopped buying all but the most essential items. By the middle of 1932, the Dow had dropped 89% from its September 1929 peak and markets in Canada were off by about 70%. As unemployment insurance had yet to be introduced, jobless men hopped aboard freight trains and jumped off at towns that might have work or waited in soup lines for free meals.

The stock market plunges caused legislative reform in the U.S. and Canada, but the global economy suffered for the next decade. Some wealthy investors such as the Rockefellers in the U.S. and E.P.

Taylor in Canada bought stocks during the 1930s. While they had to endure paper losses as the Depression continued, they eventually profited.

The Depression dragged on, and finally, Hitler invaded Poland on 1 September 1939. Anticipating the worst, pessimistic shareholders sold off their stocks, creating an opportunity for John Templeton, one of the world's most famous value investors. In a story cited by a variety of publications, interviews and his own biography, Templeton predicted that U.S. industrial companies would profit as the war heated up, borrowed \$10,000 and told his broker to buy 100-share lots of the 100 or so companies that were then trading for less than a dollar. The founder of the Templeton Growth Fund eventually quadrupled his money.

Many years later, another nasty selloff hit on Monday, 19 October 1987, when global markets fell, starting in Asia and moving around the world. The Dow plunged by more than 22% and Canadian markets fell by more than 11%. No single cause was identified, but U.S. markets had more than tripled over the previous five years. Along with overvaluation, the selloff was amplified by economic news, computer trading and margin calls. The moves inspired stock exchanges to introduce circuit breakers to restrain trading during selloffs.

Setting specific months aside, more recent fear-driven market declines include the dot-com bust of 2002, the global banking crisis in 2008 and the pandemic of 2020.

The dot-com decline began from its peak in 2000, when in March of that year, the tech-heavy Nasdaq Index peaked at more than 5,000. Investors bought into any company that had .com in its name, even if it had no earnings and was burning through money. (Today's equivalent may turn out to be AI). As reality set in, investors sold, driving the Nasdaq to a low of 1,114 in October 2002, a decline of about 78%.

For Canadians, the dot-com bust included a particularly painful and embarrassing feature known as Nortel Networks. The Canadian telecom giant, which had grown out of Bell Canada's Northern Electric manufacturing subsidiary, gambled heavily on making the equipment by which dot-com companies would communicate with the world. Nortel's shares rode the tech boom, giving the company a peak market capitalization of nearly \$400 billion in 2000, representing a third of the total market cap of the entire Toronto Stock Exchange. As orders fell, the overexpanded and bloated Nortel began to post huge losses, and by 2002, the company was worth less than \$5 billion, a plunge of more than 98%. Overvaluation was just one of Nortel's problems, as a subsequent accounting scandal and bankruptcy left its employees impoverished and embittered.

The stock-market peaks in October 2007 marked the beginning of a prolonged, fear-driven bear market that accompanied the global banking crisis. For years, banks and other lenders had been offering "sub-prime" mortgages to low-income homeowners and had repackaged the loans as mortgage-backed securities, which were traded among other lenders and institutional investors such as insurers and pension funds. Once the homeowners began defaulting, home values fell, along with the array of financial products that had been tied to them. Bankers did not know which other banks

held the near-worthless paper, and the market dried up. The March 2008 forced sale of Bear Stearns and the bankruptcy of Lehman Brothers in September of that year showed that even the largest of institutions were vulnerable.

Stock markets in all countries fell during the crisis. Between the October 2007 peak and the March 2009 bottom, the Dow Jones Industrial Average fell 53.8%, the S&P 500 plunged by 56.8%, and Nasdaq fell 55.6%. Canada's TSX Composite lost "only" 35% in 2008 but fell by about 50% between June 2008 and March 2009.

The most recent market plunge came in February and March of 2020, when it became apparent that the COVID-19 pandemic was going to be worse than originally thought. The S&P 500 went into free-fall over the four weeks and lost a third of its value between its peak on February 19 and its March 23 trough. Canadian investors suffered even more as the S&P/TSX Composite fell 37% over the same period. The oil price plunged near the end of the COVID selloff, adding extra pain for shareholders in Canadian energy companies. Governments cut interest rates, created emergency payments, wage subsidies and loans, which finally turned the markets around.

Does fear create buying opportunities? The short answer is no.

Investors who keep an abnormally large allocation of their portfolio in cash to take advantage of sudden market selloffs suffer opportunity cost. As markets rise, those with too much cash miss out, inspiring the old adage that "time in the market beats timing the market." Investors must not only be correct in predicting that the market will recover, but it must recover sufficiently and quickly enough to make the strategy pay off. Being human, investors can make other mistakes such as borrowing to implement the strategy, buying too early or panicking and selling. The buy-the-dip idea becomes even more risky when applied to individual stocks, where a selloff could accurately reflect the recognition of major structural problems (note Nortel Networks above).

Numerous studies reinforce the idea that holding cash and waiting for a market plunge is a mistake:

In a December 2025 article, *Hold the Dip*, Greenwich, Connecticut-based quantitative research firm AQR Capital Management found that buy-the-dip (BTD) strategies represent value investing on a very short time horizon that puts investors on the wrong side of momentum. The 17-page report describes how researchers built 196 different combinations of dips, varying the dip depth, duration and hold period over 60 years between 1965 and 2025. The report found the buy-the-dip strategy produced worse risk-adjusted returns (lower Sharpe ratios) than simply buying and holding, and that following trends was more profitable.¹

Javier Estrada, a professor of finance at the IESE Business School in Barcelona, Spain, tested buy-and-hold strategies against buy-the-dip ones and found that while there is nothing wrong with buying after dips, selling bonds to buy into falling stock market dips doesn't work. His 17-page May 2026 paper, *Buy the Dip? Not So Fast*, appears on SSRN, a global clearinghouse for academic papers.²

A 15 July 2026 article, *The Hidden Beta in Dip Trade* by the Centre for Finance and Markets, tested what happened when an investor bought stocks or shorted Chicago Board Options Exchange's CBOE Volatility Index (VIX) futures during stock market dips. The results showed that what appeared to be successful results were actually no better than if the investor had simply used a buy-and-hold strategy. "Markets genuinely do recover after crashes, creating the appearance of timing skill until you realize you would have profited anyway by staying invested."³

There is a difference between a disciplined, defensive strategy of holding cash to temper overall portfolio losses during a bear market, and holding cash so you can time the market and buy in during what looks like a short-term selloff. Buying small amounts regularly on specific dates, say, when you receive a paycheque or other regular payment, is a form of sensible dollar-cost averaging. Gradually increasing a stake in any individual company would take on too much industry and company risk. Instead, focus on a broad-based, index-linked Exchange-Traded Fund (ETF) with a low management expense ratio.

For U.S. exposure, such ETFs include the giant State Street SPDR S&P 500 ETF Trust (SPY), or Canadian-dollar-denominated S&P 500 tracking funds such as the iShares Core S&P 500 Index ETF (XUS) and the Vanguard S&P 500 Index ETF (VFV). Canadians who want to sidestep currency risk can gradually accumulate a position in the Canadian-dollar hedged iShares Core S&P 500 Index ETF (CAD-Hedged) (XSP).

Those who want to build exposure to the broad Canadian market can buy into the iShares Core S&P/TSX Capped Composite Index ETF (XIC), the BMO S&P/TSX Capped Composite Index ETF (ZCN) or the Vanguard FTSE Canada All Cap Index ETF (VCN).

1 <https://www.aqr.com/Insights/Research/Alternative-Thinking/Hold-the-Dip>

2 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6831242

3 <https://www.cfm.com/the-hidden-beta-in-dip-trade/>

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