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Is Investor Fear Signaling a Bottom?

It's a scary time to be an investor. There is considerable uncertainty right now regarding the future prospects of the economy. The CNN Fear & Greed Index is a popular tool used by investors to gauge market sentiment. It blends seven different indicators — including market momentum, stock price strength, and junk bond demand — into a single score ranging from 0 (extreme fear) to 100 (extreme greed). While it's not a crystal ball, the index can offer valuable insight into investor psychology — and potentially, turning points in the market.

Right now, the index is flashing “Extreme Fear.” Historically, when investors are this pessimistic, it often marks a contrarian opportunity. In other words, widespread fear can signal that most of the selling has already happened — and that the market may be near a bottom.

Why? Because extreme fear usually leads to panic selling, driving prices below intrinsic value. Once the emotional selling exhausts itself, savvy investors begin stepping in to pick up bargains — and markets often begin to recover.

The Fear & Greed Index doesn't work in isolation, but it has a strong track record. In March 2020, during the COVID crash, the index hit extreme fear levels just before the market reversed and began a powerful rally. Similar patterns occurred during the 2008 financial crisis and the 2011 debt ceiling standoff.

For long-term investors, extreme fear readings can be a call to action — not a reason to retreat. This could be a time to rebalance portfolios, harvest tax losses, or even deploy cash into quality assets at discounted prices or move money from equities to leveraged notes to more efficiently capture the recovery.

Of course, no indicator is perfect. But when paired with sound planning and a long-term perspective, the Fear & Greed Index can be a helpful guide to avoid emotional mistakes — and to lean into opportunities when others are running scared.

As Warren Buffett famously said, “Be fearful when others are greedy, and greedy when others are fearful.” Right now, there's plenty of fear — and that may be the bottom is near.

Have you heard about our Vision Quest Process? Watch the video below to learn more!

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561.998.9985



We are committed to helping you achieve your financial goals. Please feel free to contact us with any questions, comments, or a more in-depth discussion.

Sincerely,
Keith Singer

Singer Wealth
1515 S Federal Highway Suite 302
Boca Raton, FL 33432
(561) 998-9985
www.singerwealth.com

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Singer Wealth | 1515 S Federal Hwy Suite 302 | Boca Raton, FL 33432 US

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