

The Discipline of Patience:

Let the Market Prove Itself: The Case Against Catching Falling Knives

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Every investor harbors the same daydream: scoop up shares at rock-bottom prices, ride the recovery from its earliest moments, and reap the full reward. It's an intoxicating idea — and a reliably expensive one. Markets have a nasty habit of punishing premature bravery far more often than they reward it.

Stocks that appear inexpensive during a decline frequently have further to fall. A battered index can linger at depressed levels for weeks, stage a modest bounce that reignites hope, and then promptly resume its descent. This is the core danger of trying to pinpoint an exact trough: what feels like opportunity is often just a pause before the next wave of selling.

William O'Neil, the legendary founder of Investor's Business Daily, understood this trap intimately. Rather than encouraging investors to guess when the bleeding would stop, he built an entire methodology around waiting for the market to demonstrate — through price and volume — that institutional buyers had returned in force. He called this signal a **Follow-Through Day**.

The mechanics are straightforward. After a market decline establishes a recognizable low and a tentative rally begins, investors watch for a session — typically arriving on Day 4 or later of that rally attempt — where a major index posts a substantial gain on volume that exceeds the prior session. The volume component is critical: it serves as a fingerprint of large-scale institutional participation. Without that confirmation, any bounce remains suspect, regardless of how convincing the headlines might sound.

It's worth acknowledging the limitations. Historical analysis suggests that roughly one-third to one-half of Follow-Through Days ultimately fail, giving way to renewed weakness. O'Neil himself never claimed the signal was infallible. But here's the key insight: a discipline that correctly identifies the start of a durable advance even half the time is vastly superior to the alternative — deploying capital based on gut feeling, bargain-hunting instincts, or the seductive notion that “prices can't go much lower.”

The current environment illustrates the point vividly. Geopolitical volatility stemming from the Iran conflict, wild intraday swings in crude oil, and sentiment that shifts with every breaking headline have created an atmosphere ripe for impulsive decisions. Sharp selloffs tempt investors into believing they're witnessing capitulation. Sometimes they are. More frequently, they're simply witnessing another chapter in an unresolved story.

The productive question isn't whether equities have declined enough to justify buying. It's whether the market is capable of attracting sustained institutional demand at these levels. Until the evidence arrives — in the form of genuine accumulation, expanding volume, and follow-through after an initial rally — skepticism is the more profitable posture.

This framework also reshapes how investors should think about individual stock selection. O'Neil's research demonstrated that the market's biggest winners aren't typically acquired at the absolute nadir. Instead, they tend to be purchased as they emerge from well-constructed bases and begin asserting leadership. The companies that surface first after a correction — those with accelerating earnings, superior relative strength, and dominant competitive positions — are the names worth owning. Investors should be building watchlists now, identifying high-relative-strength leaders within the strongest industry groups, so they're prepared to act decisively once confirmation materializes.

The Setup Ahead

The S&P 500 may be approaching Day 4 of a potential Follow-Through setup, placing the market squarely in the confirmation window. If the index delivers a decisive rally on elevated volume, it would represent the kind of institutional endorsement worth acting on, potentially setting the stage for a meaningful advance. Until that signal arrives, discipline and patience remain the highest-percentage play.



Illustrative chart showing a Follow-Through Day signal