

When the Dip Buyers Step Away

Retail investors are losing conviction just as hedge funds reduce risk and the supply of stocks expands.

For much of this bull market, the reflex was simple: stocks fall, investors buy. That reflex is beginning to weaken. Goldman Sachs estimates retail trading participation has fallen roughly 20% since summer and 45% from late 2025. Recent buying on declines has picked up modestly, but it has not been sufficient to stop the correction.

At the same time, hedge funds have been cutting leverage after sharp losses in crowded trades. The market is confronting weaker buying interest from individual investors and pressure on institutional portfolios, just as rising equity supply requires someone to absorb more shares.

The issue is not whether every investor has turned bearish. It is whether enough capital is still willing to step in when selling accelerates.

The Market Setup

Treasury yields above 5%, higher energy bills, weaker consumer confidence and reduced savings are competing with stock-market risk. Goldman also highlights rapidly growing prediction markets as another outlet for speculative trading. These forces may be reducing willingness to add equities, although changes in participation are not the same as dollar-for-dollar outflows.

Key Takeaways

1) The reliable dip buyer is becoming less reliable.

Retail market participation has dropped sharply from prior peaks. A small recent rebound in dip-buying has not yet reversed the market decline. Investors need to judge the strength of actual price recoveries, not assume that a familiar buying habit will reappear.

2) Hedge-fund deleveraging can magnify short-term selling.

Last week brought unusually violent moves in popular hedge-fund long and short positions. Thursday was reportedly the second-most volatile day of 2026 for those trades. Position reductions can push prices farther than fundamentals alone would suggest.

3) Bonds now offer meaningful competition for capital.

When Treasury yields exceed 5%, investors have a more attractive alternative to expensive equities. That matters especially for high-multiple stocks whose valuations depend on strong future growth.

4) Rising equity supply is colliding with softer demand.

This is the structural risk worth emphasizing. More issuance and less aggressive buying can pressure prices even when corporate earnings remain sound. The first half of 2026 saw approximately \$840 billion of retail stock purchases, showing how important that demand has been.

5) Household equity ownership is concentrated.

Households directly own about 42% of U.S. stocks, but the wealthiest 10% of those households hold roughly seven-eighths of that amount. Decisions by affluent investors may matter far more for aggregate equity demand than broad retail sentiment suggests.

6) Speculative activity is not necessarily disappearing; it may be moving.

Monthly prediction-market volume reportedly jumped from roughly \$5 billion a year ago to \$78 billion. That signals increased interest in alternative trading venues, but turnover there does not establish a corresponding withdrawal of cash from stocks.

What Investors Should Watch

The quality of rebounds.

Are weak openings followed by decisive recoveries? Are rebounds holding for more than a session, or are rallies repeatedly failing beneath resistance?

Leadership and breadth.

Are AI and semiconductor leaders maintaining relative strength while broader participation improves? Or are new lows expanding and former leaders breaking support?

Equity supply and corporate demand.

Monitor large offerings, lockup expirations, new issuance, corporate buyback trends and how newly issued shares perform after listing.

Yields and institutional positioning.

A sustained easing in yields and less disorderly selling in crowded positions would improve the backdrop. Further yield increases and forced deleveraging would raise the hurdle for a durable recovery.

An Important Distinction

Goldman expects household stock demand to remain broadly solid into 2027, supported in part by retirement allocations, even as interest rates and labor-market conditions present headwinds. Lower trading participation today does not prove a permanent departure from equities. The more consequential evidence will come from whether buyers can again absorb supply and produce sustained advances.

Notable Quote

“Massive U.S. equity hedge fund dislocation on Thursday in particular.”

Kirk's Notes

This belongs alongside the Market Character Change Watchlist, particularly the equity-supply and buyback-reversal risk. It is a condition to monitor, not an automatic sell signal. A decline accompanied by weak dip-buying, expanding new lows, failed rallies and deteriorating leadership would be far more troubling than any single retail-participation statistic.

The bullish alternative is equally important: heavy selling can exhaust itself, institutions can rebuild exposure, and previously cautious households can return as price strengthens. Prepare the watchlist before that confirmation appears, but make the tape earn the decision.

The Bottom Line

The bull market has repeatedly been rescued by willing buyers. That willingness now looks less dependable just as hedge funds retrench and additional stock supply challenges demand. The key question is no longer simply whether investors are buying the dip. It is whether their buying can still change the direction of prices.

Temporary buyer exhaustion can create opportunity. A lasting deterioration in demand can change market character. Let price, breadth and leadership distinguish the two.

Source: MarketWatch, October 26, 2026, [Retail Investors Are Getting Cold Feet About Stocks](#)

When buyers grow cautious, let price reveal where opportunity survives.



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