Global markets took a left hook to the chin on Wednesday, with the TSX Index shedding nearly 2% over the "inverted yield curve," prompting investors to hit the panic button over rising recession fears.

If you've tuned into the financial media following Wednesday’s sell-off, all you would have heard of were a bunch of frightened talking heads who were ringing the alarm bell over the 10-year note yield, which fell below the two-year note yield for the first time since 2007.

Well, that's curtains for the bull market — or at least that's what many folks are thinking right now.

An inverted yield curve is one of the most accurate predictors of a recession, so is now the time to be ditching your stocks for fixed-income securities, gold, cash, and cash equivalents? Or does it still make sense to be in the market in spite of the warning signals that are flashing red?

After the Dow shed over 3% of its value in a day, most weak-handed investors who are prone to making rash decisions with the intention of asking questions later have already jumped ship. So, I think it's foolish (that's a lower-case “f”) to act after the fact.

While it’s certainly worthwhile to pay attention to economic indicators like the yield curve inversion, it’s also vital to remember to use the right spread the way it was meant to be used by its discoverer!

What you may not know is that almost everybody was in a panic on Wednesday over the wrong spread!

It's not the 10-year/two-year spread that investors should be looking at. While it did invert this week, I believe the mainstream financial media blew the situation entirely out of proportion, causing a panic sell-off that was utterly unwarranted with few stocks that were spared.

The actual spread to keep an eye on is the five-year/three-month spread.

“Campbell Harvey, a Canadian economist who discovered the correlation between the indicator and its use as a predictor for recessions, notes that looking at the two- to 10-year treasury yield spread is incorrect to use for his model," I said in a prior piece.
“The actual spread to look at is the spread between the five-year and the three-month yield curve, which isn't as close to inversion and thus isn't as alarming.

Moreover, Harvey emphasizes that the inversion of the curve needs to happen for the entirety of a quarter before the recession indicator comes to fruition.”

When you come across an article such as “…yield curve inverts, triggering recession warning…” with little to no understanding about the implications or how the indicator came to be, it’s hard not to want to hit the sell button on everything furiously.

The five-year/three-month yield curve hasn't inverted yet, and even if it did, it'd have to remain that way for a full quarter, which would be unlikely since the Fed can just step in and prevent the “ticking time bomb” from triggering in the first place.

So, what’s the real danger? The real danger is following the herd and selling as everyone is doing right now over the inversion of 10-year/two-year spread.

Now that everybody is running to the hills, it’s a great time to do some buying. Toronto-Dominion Bank (TSX: TD) (NYSE:TD), a grade-A Canadian bank, got unfairly beaten up amidst the market-wide yield curve turmoil, with shares pulling back 2.4% on Wednesday after months of pain over a sluggish macro environment.

TD Bank is one of the most conservative lenders out there and is well-prepared for the credit cycle. TD stock usually comes roaring out of the gate when things turn around, and I suspect this time will be no different.

When it comes to market-wide turmoil, stocks like TD Bank deserve immunity from the downside. While they don’t deserve to be smacked by Mr. Market, they usually do as investors in aggregate throw the baby out with the bathwater.

That's an opportunity for investors who aren't rattled by “noise” and are able to see the bargains as they're served up in real-time.

In closing, if you’re going to panic about the inverting yield curve, you might want to make sure you’re worrying about the right one!

5 TSX Stocks for Building Wealth After 50

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Joey Frenette owns shares of TD Bank.