Carl Icahn Is Calling the Cause of the Next Market "Implosion"

Description

When investing guru Carl Icahn speaks, it usually pays to be all ears. In a recent interview with *CNBC,* Icahn noted that the current market sell-off would "likely bounce back" and is nothing more than "the beginning of a rumbling."

What exactly is this rumbling?

Icahn stated that passive investing is in a bubble, and with the ridiculous amount of passive investment instruments (including exotic ETFs and ETNs) available at the disposal of investors, the next market crash could be the most catastrophic of all time.

Is passive investing in a bubble?

Many of us have busy lives and can't afford to keep up with the markets and individual stocks as do-it-yourself investors. Fair enough. The solution is simple for these folks. Index funds and low-cost index ETFs like the **S&P TSX Composite Index** (TSX:^GSPTSE) or the **Vanguard S&P 500 Index ETF** (TSX:VFV) are a one-stop shop for those who wish to participate in the markets without spending too much cash on fees or too much time researching individual securities.

Many investment advisors, including Jim Cramer, believe that new investors should start with index funds before jumping into individual stocks. Many of these investors will always stick with index funds while making monthly contributions to them through their bank, and there's absolutely no problem with that.

The bigger problem lies in the ridiculous number of ETFs and indices out there that are over-leveraged. Icahn pointed out that there are many "exotic" and "leveraged" ETFs out there, which could be drawing in "gamblers," thus turning the broader market into a "casino on steroids."

How could you be vulnerable?

Unfortunately, many investors have no idea what they're really investing in with passive funds or ETFs, and even if you don't personally have exposure to such over-leveraged investment instruments, you're still vulnerable to added volatility from the wide array of passive investment instruments that many investors are flocking to and dumping at a ridiculous rate.

Add the fact that many of these ETFs are borrowing ridiculous amounts to artificially inflate the market, and investors from across the globe will be hurt once the next downfall finally arrives.

Bottom line

For many investors, index funds and ETFs are the best thing since sliced bread, but it's important to remember that even things created for the betterment of society could end up being abused. There are a tonne of ETFs to choose from, some of which offer little in the way of additional value for the individual passive investor. Once the next crash rears its ugly head, Icahn believes the magnitude of the "implosion" could be worse than that of anything we've seen before.

I wouldn't panic over Icahn's comments, but they're definitely food for thought.

How can you protect yourself?

Don't be 100% invested in stocks and always have cash on hand to capitalize on violent downfalls. Remember: more volatility means more opportunities for investors to find stocks that are trading at discounts to their intrinsic value. Also, remember to take profits from time to time, especially after parabolic surges.

Stay hungry. Stay Foolish.

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