The Stock Market Is at a Record High: Is it Time to Get out?

Description

Canada's main stock index set record highs for consecutive days this week. As I write this, the **S&P/TSX Composite Index** is slightly lower than its peak 16,890. Year to date, it's up by a whopping 17%.

Passive investors and stock pickers have had an incredible run this year, but it's when the market reaches its peak that I wonder if it's the best time to sell and get out.

After all, the price of the index is simply a reflection of the underlying Canadian economy, which we all know isn't growing at 17% a year like the stock market has.

Investors need to monitor the market cycle closely to see if they can time their investments in individual stocks or exchange-traded funds appropriately.

So, let's take a closer look at the near-term forecast for Canada's enterprises and the overall valuation of the country's flagship index to figure out if investors should be jumping off this ship or climbing aboard for a lucrative journey.

Near-term outlook

I like to lean on forward-looking indicators while making any investment decision. Fortunately, there's plenty of indicators for the way Canada's economy is expected to shape up in the next 12 months.

Statistics Canada publishes most critical indicators on a monthly basis, but I narrow the list down to the ones that have the biggest impact on Canada's economy and are leading rather than lagging, indicators.

Four indicators I focus on are private debt, house prices, oil prices and corporate profits. Canadian corporations earned $107.1 billion in operating profit this recent quarter, which is nearly flat from the same quarter last year.

Meanwhile corporate and household debt combined are 266% of gross domestic product this year (which is bad, but it's been flat since 2016).

The recent drone strikes on Saudi Arabia's oil production facilities could ignite a long-term conflict in the Middle East which could elevate the price of oil. Canada's economic growth is, unsurprisingly, correlated with the international price of crude oil.

Finally, house prices have declined over the past two years and housing affordability has slightly improved. If the Bank of Canada cuts the benchmark interest rate soon, following the American Federal Reserve, it could make household mortgage debt more manageable. Many experts expect this rate cut to happen soon.

So, Canada's economy outlook doesn't seem rosy, but it's not as bad as I expected.

TSX valuation

With moderately positive signs for the Canadian economy going forward, it's worth taking a look at the stock market's valuation. No amount of economic growth could justify investing in Canada's corporations if they're all overvalued.

Fortunately, the **TSX 60** currently trades at a reasonable price-to-earnings ratio of 15 and offers an attractive 2.9% dividend yield. Canadian corporations are also ramping up their buyback programs and have already repurchased shares worth 2% of the entire market's value this year.

By comparison, America's flagship index, the **S&P 500**, is currently trading at a PE ratio of 22 and offers a dividend yield of only 1.5%.

Foolish takeaway

With forward-looking economic indicators moderately positive and the flagship index fairly valued, the TSX's historic high appears to be justified.

CATEGORY

1. Investing
2. Stocks for Beginners

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/09/28
Date Created
2019/09/20
Author
vraisinghani