



## 1 Stock to Sell Before the Next Market Crash

### Description

The stock market is in the midst of an impressive bull run. It has now been rising for over 10 years after bottoming out in March 2009. Yes, there have been some minor losses and volatility along the way, which is to be expected. The **Dow Jones Index** and the **S&P 500 Index** are trading close to their record highs, while the **S&P/TSX Composite Index** is trading 3% below its 52-week high.

Now is the time for investors to remain cautious and take a step back. The PMI (purchasing managers index) data from the United States and Europe point to an imminent downturn. The PMI data for Canada, though, is still encouraging. It rose to 51 in September, up from 49.1 in August, according to a report from Trading Economics.

The report stated, "The latest reading pointed to the sharpest expansion in factory activity since February, as output increased for the first time in six months and new orders advanced slightly after declining for six consecutive months. Also, new export business rose and the rate of job creation accelerated to a seven-month high."

A PMI score of 50 separates expansion from contraction. Though the Canadian economy remains strong, it will be impacted by a slowing global environment. The trade war between the U.S and China and the inverted yield curve will make investors rightly cautious heading into the fourth quarter of 2019.

I think the market is due for a correction and overvalued stocks will lose significant market value. Here we look at one such stock that is vulnerable in a downturn.

### Constellation Software

Shares of Canada's tech giant, **Constellation Software** ([TSX:CSU](#)) have gained a significant 375% in the last five years, easily outperforming broader indices. This impressive run has meant that the stock is now trading at expensive valuations. The company is valued at \$28 billion, or eight times 2019 sales.

CSU stock is trading at a forward price-to-earnings multiple of 36.4. Compare this to its annual estimated five-year earnings growth of 14.7%, and we know that the stock is overvalued. CSU's

earnings are expected to rise by just 3.7% in 2019 compared to revenue growth of 14.2% this year.

Though CSU remains a solid long-term bet, investors need to brace for a significant pullback when the market corrects. One reason why investors are bullish about CSU is due to the stock's stellar performance during the last recession.

CSU was publicly listed back in May 2006 at \$18.3 per share and more than doubled in market value by January 2010. At the end of 2007, CSU was trading around \$25.24 per share and impressively held its own to close trading at \$25.75 at the end of 2008. By the close of 2009, CSU galloped towards \$36.75 and was one of the top technology performers in the recession, not just in Canada but in the global arena as well.

## The verdict

The fundamentals of Constellation Software are strong. It has a cash balance of \$220 million and a debt of \$563 million. Operation free cash flow stands at \$685 million, which means the company can continue to focus on inorganic growth via acquisitions. It is just that the stock's valuation is way too high currently. It is trading at \$1,337, which is just below record highs of \$1,352.

In the June quarter, [CSU reported earnings 10% below estimates](#). Though it is not a reason for panic, investors are advised to reconsider their investment in the stock.

Analysts are also bearish on CSU. They have a 12-month average target price of \$1,031.86, which is 22.6% below the current trading price.

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## Author

araghunath

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