Why 2020 Could Be the Year We See Another Market Crash

Description

This coming year could be one of the most challenging that investors have seen in a while. Valuations are sky-high and the markets have been performing above expectations, even as many people have been expecting a downturn.

For one reason or another, the economy hasn't been slowing down just yet.

However, that could come to a grinding halt in 2020 as we could be due for a significant correction on the markets. As of the end of last week, the **TSX** was up 19.7% in 2019 — the best performance that it's seen all decade. Here's how the TSX performed in each year since 2010:

Year	Return
2019	19.7%
2018	-12.2%
2017	5.2%
2016	18.3%
2015	-11.8%
2014	7.6%
2013	8.6%
2012	1.8%
2011	-10.8%
2010	13.3%

Double-digit returns have been a rarity for the **TSX**, as this will be just the third time in the past 10 years that it's achieved that feat.

In 2011, it followed up the prior year's performance with a double-digit decline, while in 2017 it was still able to muster up a mediocre 5.2% improvement.

While past performances don't predict that future, what this data helps to show us is just how rare of a year it's been in 2019 for the TSX.

However, much of that performance has been due to the sluggish end to 2018 that brought valuations down. A big reason why the TSX has done so well this year has been because it's spent the first two months of 2019 recovering from 2018's sell-off. If we look at the TSX from March 1 through to December 27, its returns are a very modest 6.8%.

Other headwinds investors should be wary of

It's not just that the market has outperformed in 2019 that should have investors expecting a correction in 2020, but there are other issues that will likely drag on the TSX this year.

For one thing, 2019's polarizing election results could have a big (negative) impact on the oil and gas industry. It's an industry that Canada needs to be performing well if the TSX and the Canadian market as a whole are to do well.

At this rate, there's little reason for investors to be optimistic for things to get any better for the industry in 2020, which could spell trouble.

In addition, troubled China-Canada relations could also take a hit this year, especially if Huawei executive Meng Wanzhou is extradited to the U.S.

We already saw a glimpse in late 2018 how troubled relations between the two countries could impact stock prices with the fall that **Canada Goose Holdings Inc** went on.

Bottom line

The TSX is coming off a strong year in 2019, but investors shouldn't expect that to continue into 2020.

Shopify Inc (TSX:SHOP)(NYSE:SHOP) is a prime example of a stock that's been grossly overvalued that could see a big drop in 2020.

The stock's $60 billion valuation already makes it among the top stocks on the TSX, placing it above **BCE**, which has a market cap of $55 billion.

While Shopify has achieved growth over the years and still continues to see sales rise by 40%, it's remained unprofitable, and it's nowhere near as stable as a blue-chip stock such as BCE.

Shopify is one stock that could be adversely impacted by a market correction as it has averaged a beta of 1.2, meaning that if the market takes a downward turn, investors can expect that Shopify will as well.

One thing investors can do in 2020 to protect themselves is to shed their portfolio of high, overpriced stocks like Shopify. While the temptation may be there to hang on to high-performing stocks, it could prove to be a very risky decision.

Investors may be better off holding some dividend stocks that can help add some recurring income, which could help offset declining share prices.

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