



Planning for a Market Crash: Why I Invested \$25,000 in This 1 Stock

Description

Finding a good stock was a challenge early on this year. Many stocks were significantly overvalued, with a number of them trading at not just 52-week highs but five-year highs as well. So for value investors like myself, it was difficult to find an investment to add to my Tax-Free Savings Account (TFSA).

One way I try to find a good stock to invest in is to look at where a particular industry is headed and even the markets as a whole. Macro-level trends and indicators can sometimes uncover great opportunities. The biggest inevitability today, however, appears to be that a significant market crash occurring where many of these bubbles will pop and overpriced stocks will come down hard.

Turning to gold

One place investors typically go to when the markets struggle is to gold. That's why I turned my attention to gold stocks and invested \$25,000 into Canadian gold miner **Kirkland Lake Gold** (TSX:KL)(NYSE:KL). With solid fundamentals, strong profits, and decent valuation multiples, it's one of the safer investments to make today. It's also coming off a high, but with gold prices continuing to rise, Kirkland Lake's financials will only get stronger, making it an even better buy.

With the Kirkland Lake share trading at a price-to-earnings (P/E) multiple of only 15 and a forward P/E of 13, it's a great value buy. The company released its year-end results on February 19, reporting that production in the fourth quarter was up 21% year over year while revenue grew by 47%.

Kirkland Lake also reported a record \$185.3 million adjusted earnings in the fourth quarter, and that was a 76% improvement from the same quarter in 2018. It was another impressive performance for the company and the acquisition of Detour Goldcan lead to even more growth down the road for Kirkland Lake.

The company also announced it would be repurchasing 20 million shares over the course of the next one to two years and that it would be doubling the dividend. Investors can now earn a little more than 1% per year. Although it's not a [huge payout](#), it's a great bonus for a stock that's more than doubled

over the past two years and that still has the potential to climb even higher.

Why a market crash is inevitable

There are several reasons why the markets are due for a correction. The first is that as mentioned, valuations are simply too high and just not sustainable for many stocks. Stocks like **Shopify** and **Tesla** have soared too quickly and it's hard to find a reasonable valuation multiple that can justify a correction not happening. Cannabis investors know all too well how quickly hype can fizzle out, and the results can be catastrophic.

Another reason to expect a crash is the coronavirus and the impact that it's having on economies around the world. Any business that's tied to China will feel an impact and the more that the virus spreads around the world, the more prolonged and widespread those effects will be. Lastly, there are also rail blockades taking place in Canada that will compound problems for Canadian businesses that will have to deal with interruptions in supply. That, in turn, could impact U.S. companies as well.

It's becoming a perfect storm of sorts for companies to deliver some underwhelming results later this year, which can translate into a weaker economic performance and the possibility of a [recession](#) happening sooner rather than later. That can help push gold prices up, and gold stocks like Kirkland Lake may become more attractive buys in the process.

While Kirkland Lake has struggled of late as well, I wouldn't expect that to persist, especially with the company willing to support the stock price through share purchases. Its lower price only makes it a much better buy during this downturn as there are many more positives than negatives in investing in Kirkland Lake. I think it looks to be a great buy beyond just 2020.

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