Is the Passive Investing ETF Bubble Finally Bursting? The “Big Short” Guy Thinks So

Description

More than two months into the new decade, we’re witnessing a bloodbath of the Canadian equity markets. The **S&P TSX 60 Index ETF** (TSX:XIU) has slumped by more than 30% at writing. It is trading at $19.36 at writing.

Dr. Michael Burry, one of the famous investors who called out the housing market crash before it happened in 2007, has been warning about the market of a new bubble. Dr. Burry shot to fame with his book *The Big Short* and has recently started calling out another bubble.

A new bubble emerging

Dr. Burry is increasingly worried about the rising number of passive investment vehicles in global markets. Over the past 10 years, the options for passive investing increased and exchange-traded funds (ETFs) have become astronomical. It almost appears as though there’s an ETF for everything these days.

Dr. Burry already made waves last year when he announced his controversial views on passive investments. He said that the flood of money into index funds was distorting the value of stocks and bonds.

It is a trend similar to the way purchasing collateral debt obligations impacted subprime mortgages before the crisis in 2008.

Coronavirus-led bubble burst

The California-based money manager said that the bubble he had been warning about since August might finally burst. A global pandemic may be the potential trigger that will cause the passive investing bubble to unwind finally. When it comes to the stock market, the hysteria that COVID-19 might be worse than the outbreak itself.

Dr. Burry said that nobody knows how long this situation will last, and investors have a valid reason to sell. The last decade was fantastic for global stock markets. According to Dr. Burry, certain preconditions were being met, and the central banks possessed the ability to apply brakes to any selloffs. Currently, the banks no longer possess that power.

Foolish takeaway

After tumbling down 30% over the past few weeks, high-dividend ETFs like **iShares S&P/TSX 60 Index Fund** yields 3.55% at writing. It is not a fantastic yield for an economic recession, but it could be a decent cushion for some investors who own the fund.

According to Dr. Burry, you should tuck your tail between your legs and run. XIU owns shares of the most significant 60 stocks on the **TSX**, and its management expense ratio of less than 0.2% shows that it is a top investment vehicle.

XIU owns the likes of **Enbridge Inc.** and **Royal Bank of Canada** stocks. The businesses are under risk in the current environment.

Please note that this doesn't mean you should start selling off your entire portfolio. Rather, it's a warning that you should be careful, keep monitoring your portfolio and take measures to keep your capital safe.

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