The Market Roars: It’s Time to Be Cautious

Description

According to the stock market, the crisis seems to be over. If that doesn’t worry you, I don’t know what will. I think there is a good chance we could be testing new highs soon, if not in Canada, then at least in the United States.

The United States has stated that cases are slowing faster than expected. Stimulus packages from global governments are seen positive for their economies. Markets are forward-looking vehicles, and these measures seem to indicate there might be sunny skies on the horizons.

Nothing has changed … it’s worse

Before the coronavirus existed, there were a few main threats to markets. Stocks were expensive, asset prices were generally inflated, and there were loads of debt.

With earnings expected to come down sharply, stocks are going to be even more expensive than they were before the coronavirus. Even if stock prices are the same as they were before, earnings are expected to be less for many companies. If no one is making any money, there are no earnings.

Real estate, bonds, and other assets have not generally come down in price. Worse yet, these assets are not being sustained by market demand insomuch as they are being propped up. The focus of many governments was to save housing markets, throwing money at individuals so that they can sustain their debt-fueled spending.

Right now would be the time to add some gold exposure through a stock like **Newmont**. You get leveraged gold exposure, which may help cushion the blow. Personally, I prefer physical gold and silver, but you can get better returns from a producer.

The definition of insanity…

Households are still overleveraged. Worse yet, many of those who were within a few hundred dollars of going broke each month now don't have jobs. Global governments are throwing money at them, but how long can that keep up?

World governments were hugely indebted after the financial crisis. Even during good times, global governments continued to increase debt. After this recent crisis, debt has gone to the next level

The perpetual money machine

I did not know that economics 101 stood for a perpetual money machine that enables risky decision-making with no consequences. It seems to me that this sort of debt-fueled, asset-inflating, hyper-risky behaviour has always ended badly. Hundreds of years of record-keeping seem to indicate that it is a bad idea to keep blowing air into overinflated objects.

I have been negative for years on asset prices, not just stocks, due to the huge debt loads floating around the world. Governments needed to tap the brakes. But instead of slowly deflating a bubble, they put the pedal to the metal. The engine is shaking now, heating up and driving us forward.

Three weeks ago, I was starting to feel good about markets. Things were bad, but at least air was coming out of the system. This reduces risk, since markets need some pain to keep things from raging out of control. Now, leverage is being increased once again, leading to an increased fragility in global markets.

The bottom line

If you are fearful when others are greedy, now is the time to be cautious. Stick to companies with stable businesses and low debt. Don't be a hero. Keep those dividends as cash. Buy some gold and silver, even if it pays no interest. If markets start hitting new highs this month, be ready because there could be further opportunities to buy great stocks at lower prices very soon.

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