



## Stock Market Rally: Is it Too Late to Buy Stocks Now?

### Description

The stock market hit a bottom in late March 2020. Since then, it has surged an astounding 36%. That market rally reflects the strength of the broad **S&P/TSX Composite Index**. However, some smaller individual stocks have doubled or even tripled over the same period. March was a great time to buy stocks.

Everyone's favourite tech stock — **Shopify** — has more than doubled since mid-March. It is now the largest publicly traded company in the country. Meanwhile, rising tech stars like **Facedrive** and **WELL Health Technologies** have had similar runs.

With so many stocks trading at all-time highs, and investor sentiment so exuberant, it might be time to consider if it's too late to buy stocks now. Here's a closer look.

### Buffett Indicator

The stock market is not the economy. However, the economy is integrally linked to the market. Eventually, the prices have to make some economic sense. For the moment, they seem suspended in nonsense.

Warren Buffett uses a key indicator to measure stock valuations in aggregate. The so-called Buffett Indicator measures the ratio of the stock market's value to the value of national output over a year. A ratio over 100% signals overvaluation.

Canada's overall stock market is worth \$2.5 trillion. Meanwhile, the gross domestic product was estimated to be \$2.3 trillion. In other words, the Buffett Indicator is 108% in Canada.

However, that GDP figure is now outdated. It doesn't account for the far-reaching impact of COVID-19 and ongoing economic lockdown. If GDP declines 6.2% in 2020, as experts predict, the Buffett Indicator could be even more worrisome.

In short, the stock market is thoroughly overvalued.

## Opportunities to buy stocks

Just because the overall stock market is overpriced doesn't mean *all* stocks are. Certain sectors of the economy have been absolutely decimated in recent months. Investors could look to these sectors for bargain opportunities or distressed assets.

I believe commercial property and restaurants could be ripe for such bargains. Stocks like **Brookfield Property Management** and **Restaurant Brands International** are severely beaten down now. Over the long term, these could present attractive opportunities.

In fact, some of the savviest investors have already [injected billions into the market](#) during the previous crash. Bill Ackman has been betting on Restaurant Brands, while Hong Kong billionaire Li Ka-Shing doubled down on his WELL Health investment in March.

Investors could probably look for bargains in residential real estate, energy, construction, and luxury apparel. There's bound to be at least one long-term winner in each. Making the right bet at these depressed valuations could be a game changer.

## Foolish takeaway

The stock market has had an incredible run. After a sudden drop in March, the market is up by more than a third. Now, it's worth more than the entire nation's annual GDP. In other words, the stock market is overvalued.

However, savvy investors willing to take a closer look at unfavorable industries could find bargains. The energy, commercial real estate, and luxury retail sectors haven't recovered from the crash. A contrarian bet at suppressed valuations could be the perfect recipe for long-term wealth creation. In short, it's not too late to buy stocks.

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