Market Crash Round 2: Should You Be Fearful?

Description

There is an old investing adage that warns us to be fearful when others are greedy. The twists and turns on the market this year are enough to give anyone whiplash. Shifts in sentiment have been rapid, which has led to one of the sharpest declines and subsequent rebounds in history this spring. Stock valuations are surging as we move into June, while economic data remains troubling. In this environment, investors should consider the potential for a second market crash.

Today, I want to look at stocks that could succumb to a pullback this summer. Let's dive in.

Market crash: Will the momentum last for gold?

Earlier this month, I'd discussed the long-term prospects for gold. I'm bullish on the yellow metal this decade, as interest rates look to remain at historic lows for the foreseeable future. However, a market crash could deal damage to high valuations for gold mining stocks.

Yamana Gold (TSX:YRI)(NYSE:AUY) is a Toronto-based gold producer. Shares of Yamana have climbed 33% in 2020 as of close on June 3. The stock is up 146% year over year. Like its peers, Yamana has benefited from the surge in spot gold prices. Gold per ounce reached a seven-year high in 2020. Shares of Yamana climbed into technically overbought territory in late May, but its RSI has since retreated to neutral levels.

Gold stocks may be vulnerable to market turbulence, but Yamana still boasts nice value right now. Shares possessed a price-to-earnings (P/E) ratio of 17 and a price-to-book (P/B) value of 1.1 at the time of this writing. Moreover, market volatility could lead to a bigger run on gold as a safe haven.

Cannabis stocks can't shake volatility

The cannabis sector has shown renewed signs of life this spring. Cannabis sales activity spiked in March, as consumers looked to stock up in response to the COVID-19 outbreak. However, this surge has tapered off in the weeks since.

Shares of **Canopy Growth** have dropped 18% in 2020 as of close on June 3. Canada's largest cannabis producer posted a bigger-than-expected loss in its fourth-quarter fiscal 2020 results. The company withdrew its forecast for positive EBITDA by the end of fiscal 2022 due to the COVID-19 pandemic. Investors have lost considerable faith in this sector, and a broader market crash could deal even more damage to Canopy and its peers. Moreover, Canopy had veered into technically overbought territory in late May.

Watch out for stocks with high valuations

In previous articles, I'd discussed why high performers like **Shopify** and **Kinaxis** could succumb to market pressures going forward. **Sleep Country Canada** was my top stock pick for the month of June. Its shares have climbed 30% month over month at the time of this writing. I'm bullish on the mattress retailer going forward, but a market crash could put a halt to its attractive momentum. The stock had an RSI of 73 as of close on June 3, which puts Sleep Country in technically overbought territory.

However, there is still a lot to like about Sleep Country today. Its stock boasts a favourable P/E ratio of 11 and a P/B value of 1.9.

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