Another Huge Market Sell-Off Is Nearing

Description

The pandemic-driven market crash of February-March 2020, while not as violent for the TSX as the 2009 recession, was still the sharpest decline the market saw in over a decade. And the recovery was swift enough, especially considering the twin effect of the pandemic and the oil price issue. But as TSX slowly recovers and moves towards its pre-crash position, many people are afraid that it's too soon to be overly optimistic.

The case for another market crash can be made. But there is also a chance that the market optimism is on point, and the economy, and consequently the market, will keep on recovering.

Another market sell-off?

The most potent indicator and instigator for the second market crash is likely to be a second wave of the pandemic. But whether or not it will affect the market the way it did before is hard to say for two reasons. The first is that, unlike last time, when the businesses, companies, communities, and the government weren't ready to deal with the pandemic's economic repercussions, everyone is relatively better prepared.

The second reason is a bit morbid: if the second wave of the pandemic emulates the Spanish flu of 1918 (i.e., an overwhelming number of patients and a much higher death toll), its impacts on consumer psychology will be much more destructive. But if the second wave is similar or less devastating than the first one, the chances are that people will learn to live with it.

The latter trend may result in a slow but continuous recovery of the stock market. But if the second wave threatens to be more potent, then the sell-off this time might be even crazier (and immediate) than before.

What to look out for

If you are looking to take advantage of another market crash, you may want to consider an overvalued growth stock like the old tech aristocrat, **Enghouse Systems** (TSX:ENGH). Enghouse stock fell over 32% during the crash. It has already recovered, and it's trading at a price 14% higher than its pre-crash value. With a price to earnings of almost 48 times, you may not want to buy it right now, but another crash can knock its value down to a more desirable number.

As an aristocrat, the company has been increasing its dividends for 13 years. The yield isn't very attractive at 0.88%, but its growth rate is decent enough. Since 2016, the company has increased its dividend payouts by 125%. The payout ratio is very stable, at 39%. Enghouse is also a decent growth stock, with five-year returns over 143%.

As a profitable IT company, it doesn't have a lot of debt, just about one-third of its total cash pile. Its assets are enough to comfortably cover its long-term and short-term liabilities, though a significant portion of its total assets is made up of intangible goodwill.

Foolish takeaway

Even if another sell-off is imminent, you don't need to join the frenzy. If you have invested in fundamentally good businesses, your portfolio will most likely weather the storm. And if you have some capital to spare, you may consider buying some good securities when they are trading at a discount during the crash, so even if you sustain any losses, you can make up for it with smart value investing.

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Author
adamothman