



Why I Just Sold 20% of My Portfolio

Description

This bull market makes no sense to me. Back in March, when I deployed thousands of dollars on stocks across the world, it didn't seem like I was snagging bargains. The economy was heading for a brick wall and stocks were simply reflecting that. Now, they're reflecting a mirage and I need to scale back my exposure to it.

I sold 20% of all my holdings this week. It's a move I've never done before and probably won't have to do again. But unusual circumstances demand unusual action. Although my approach won't work for everyone and I could be wrong about this bull market. Here's an overview of my investment thesis.

Unjustified bull market

I understand that stocks are a leading indicator. Investors aren't looking at what's happened in the past or what's happening today, but are trying to predict the future. The bull market indicates that investors see a bright future. However, even if that's the case, current stock prices do not reflect that.

The **S&P/TSX Index** currently trades at \$2.6 trillion. Meanwhile, Canada's gross domestic product *last year* was \$2.3 trillion. In other words, stocks were already trading at a premium before the crisis. Now, we've lost a quarter of economic activity. We will certainly lose another quarter as well, which means the economy is sliding while stocks are rising.

The TSX stock market is down just 8.2% year to date. However, I believe the economy is down much more than that. Even if the economy fully recovers to pre-COVID levels by the end of 2020, the market has priced that in and there's no upside left.

While stocks are priced to perfection, two major risks are emerging that I believe haven't been reflected in the bull market yet.

Risks on the horizon

The risk of a second wave of coronavirus cases is probably the biggest threat to this bull market. Every expert and epidemiologist believes a resurgence of cases is likely this year. Re-entering lockdown

would be a devastating blow to the economy.

Another risk is the so-called “default cliff.” Canadian households were already over-leveraged heading into this crisis. Over the past few months, millions have applied to defer their mortgage payments to avoid economic hardship. However, this debt isn’t forgiven. Instead, it’s been postponed.

When householders reach the end of the deferral period and are unable to pay the entire amount, the economy could suffer another major headwind. This leverage-triggered headwind will impact Canada’s most crucial sectors, including banking, construction and real estate assets.

My move

With growing risks and lower upside, I believe the only way to protect myself is to sell a portion of my entire portfolio and move to cash. This week I reduced my stake in **Well Health Technologies, Alimentation Couche-Tard, Onex, Twitter and Match Group.**

I held onto my **Fairfax India** and **HDFC Bank** because I believe these to [be fairly valued.](#)

Altogether, roughly one-third of my portfolio is now in cash. I hope I’m wrong about the bull market. But I’m well prepared if I’m not.

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