Market Crash 2020: This Warren Buffett Indicator Might Make Investors Nervous

Description

The markets fell significantly lower on June 11 on fears of a second wave of COVID-19 infections. The **Dow Jones Industrial Average** was down over 6%, while the **iShares S&P/TSX 60 Index ETF** slumped 4% last Thursday. Second wave or not, investors need to brace for a market correction as several economic indicators point to a pullback.

The unemployment rates in Canada and the United States stand at multi-year highs of 13.7% and 13.3%, respectively. While lockdown measures are easing, consumer spending will remain subdued at least in 2020 and delay global economic recovery.

Warren Buffett, one of the world's most renowned investors surprised stock market enthusiasts in April. Warren Buffett-owned **Berkshire Hathaway** did not go bargain hunting during the stock market crash that wiped away significant portfolio value.

Broader indexes such as the **S&P 500** and the Dow Jones fell 36% from record highs in less than a month. However, Berkshire Hathaway's cash balance rose from $128 billion at the end of 2019 to $137 billion in Q1 of 2020.

Does this mean that Warren Buffett expects another market crash in 2020?

One of Buffett's favourite economic indicators is the market cap to GDP ratio. According to Warren Buffett, if this ratio is over 100%, it indicates that the markets are overvalued and vice versa. This is also known as the Warren Buffett indicator and can give investors insights into an increasingly volatile market.

The Warren Buffet indicator for Canada stood at 110% just before markets collapsed due to the financial crisis in 2008 before hitting a low of 56% at the market bottom. As of June 15, Canada's stock market to GDP ratio stands at 109.64%. This figure is far higher at 145.3% for the U.S. markets.

This Warren Buffett-owned stock is up 110% since March

While the Warren Buffett indicator does not inspire confidence, it is almost impossible for investors to time the market. There is a chance that equity markets will not crash and remain range bound in the next year.

In this case, investors can look to add quality stocks to their portfolios. Warren Buffett has exposure to a couple of Canadian stocks. Berkshire Hathaway owns 8.4 million shares of **Restaurant Brand International** (TSX:QSR)(NYSE:QSR) worth US$474 million, indicating a 1.6% stake in the company.

We know the COVID-19 pandemic led to countrywide lockdowns, decimating restaurant stocks such as QSR. Shares prices of Canada's top quick-service restaurant fell from $89 in February to a multi-year low of $36.5 in March. The stock has since rebounded to trade at its current price of $76.77.

QSR owns several well-known brands including Tim Hortons, Burger King, and Popeyes. The food giant is prepared for a post-pandemic world as fast-food restaurants generate a significant amount of sales from drive-throughs.

For long-term investors, QSR can be the ultimate growth stock given its expansion plans in China. It recently secured funding from China's **Tencent** and is focused on growing its presence multi-fold in one of the fastest-growing emerging economies.

The stock also has a forward dividend yield of 3.8%, making it an attractive buy for income investors as well.

CATEGORY

1. Coronavirus
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TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

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