



Stock Market Crash 2021: Protect Yourself Now

Description

After a brutal market crash in the first quarter, investor sentiment surges higher. Stock markets are rising again, job losses are slowing, and the worst of the pandemic is contained. Some analysts [believe](#) we're at the beginning of a multi-year bull market.

But caution is warranted. There's a rising chance that we see another market downturn by 2021, perhaps even sooner. While the timing is uncertain, the [pieces](#) are all there.

Worried about a second market crash? Pay close attention.

Things are too perfect

In his 2008 letter to shareholders, Warren Buffett shared an important lesson.

"Long ago, Ben Graham taught me that 'Price is what you pay; value is what you get,'" Buffett wrote. "Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."

This is one of the most fundamental concepts in investing. No matter how good a company is, or how fast it's growing, it's always possible to overpay.

This is why analysts talk so much about *valuation*. The market price gyrates on a daily basis, especially during a market crash. But over the long term, price and value ultimately converge.

So where are stocks valued today? Despite the difficult environment, many markets are trading at historically *high* multiples.

"The current P/E on the U.S. market is in the top 10% of its history," said GMO Asset Management co-founder Jeremy Grantham. The Canadian stock market isn't too far behind, especially when you strip out the ailing fossil fuel industry.

Prices suggest that conditions are in the top 10% of history, but is that actually true?

“The U.S. economy in contrast is in its worst 10%, perhaps even the worst 1%,” concluded Grantham. “In addition, everything is uncertain, perhaps to a unique degree.”

Prepare for a market crash

The numbers are clear. Stock prices are sky-high. The value that you’re getting in return, meanwhile, could be quite low.

At minimum, there’s an unprecedented range of outcomes over the next 12 to 24 months. A complete return to normal could occur. Alternatively, we could slide into a deep and dark recession.

Just take a look at what some major CEOs are saying about the market crash.

Air Canada CEO Calin Rovinescu said, “It’s the darkest period ever in the history of commercial aviation.” He doesn’t expect conditions to normalize for three years. **Linamar Corp** Linda Hasenfratz warned that the industry must brace for a resurgence of COVID-19. Canadian Federation of Independent Business CEO Dan Kelly said that just 17% of Canadian restaurants are reporting an average volume of sales.

Things just don’t line up. Whenever the gap between price and value rises, the odds of a market crash also rise. Grantham thinks we could be experiencing one of the biggest gaps ever.

“The market’s P/E level typically reflects current conditions. Markets have historically loved fat margins, low inflation, stability and, by inference, low levels of uncertainty,” he explains. Yet prices are high and conditions are terrible.

“This is apparently one of the most impressive mismatches in history,” Grantham concluded.

CATEGORY

1. Coronavirus
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Date

2025/08/24

Date Created

2020/06/24

Author

rvanzo

default watermark

default watermark