



Get Aggressive: 3 Reasons Another Stock Market Crash Is NOT Coming

Description

It seems like every pundit, commentator, or even semi-serious investor is in agreement: we're going to have another stock market crash.

I'm the first to admit these folks might be onto something. COVID-19 is still a big part of our lives. Cases continue to climb in most areas in the United States, although deaths have stayed much lower than expected. This has caused much speculation, as investors guess a new wave of lockdowns will be coming.

There has also been plenty of disappointing economic data. Jobless claims keep ticking higher. Consumer confidence is considerably weaker. And the underlying economic numbers confirm we're officially in a recession. No wonder everyone is bearish; evidence of a weak economy is everywhere.

And yet, despite all this, stocks have been resilient. Market indices in both Canada and the United States are up significantly compared to March lows. Certain sectors — like technology, gold, and consumer staples — are actually higher than a few months ago. This does not jive with economic reality, leading many investors to one obvious conclusion. Stocks are overvalued and we'll have another stock market crash soon enough.

I couldn't disagree more. Here are three reasons why all the bears calling for a stock market crash are dead wrong.

A forward indicator

Many investors make the same error. They assume the stock market reflects reality as it stands today. This is a common mistake — something I'll admit I fell for in the past.

But it's just not true, no matter how much investors might wish for it. How stocks perform today reflects the market's expectations for the future. Sharp moves in either direction mean the existing narrative has been disrupted, and investors are forced to quickly adapt to a new reality.

Even though economic numbers still look bleak in the near term, investors are shrugging off this weakness in favour of a more medium-term outlook. The market is saying they see a future a few months from now where COVID-19 has faded but is still a threat. That seems like a pretty reasonable expectation to me.

Better-than-expected results

Everyone is focused on how crummy economic numbers have been. It's easy to see why; it's a little bit like watching a train wreck. You just can't look away.

But investors must remember that numbers aren't enough on their own. We must judge the numbers based on expectations. If expectations are terrible, and the actual numbers come in slightly better, that's a win. Stocks will rally based on beating expectations.

We're still at the point where expectations are incredibly low. As long as the actual numbers are a little better, stocks will continue to rally. It seems simplistic, but it's the truth.

Still many good buys

I simply don't understand investors who lament the lack of cheap stocks out there. I'm seeing bargains virtually everywhere.

Take **Genworth MI Canada** (TSX:MIC), Canada's second-largest mortgage default insurer. This has consistently been an excellent business over the years, as Canadian homeowners pay their mortgages without issue.

Some folks are incredibly [bearish on the Canadian real estate market](#) for the rest of 2020, but something completely different is playing out. The real estate market is red hot today, as agents across the country report strong sales numbers. And it looks like CERB and other stimulus programs will help homeowners make it through today's tough economy unscathed. This is all good news for Genworth.

Shares are quite cheap on a few different metrics. They trade at just 6.5 times trailing earnings, although I'm the first to admit 2020's earnings won't be as high as 2019's. Still, I predict earnings will be back to normal in just a couple years, which means shares are quite cheap based on normalized earnings. And you have to like the 6.8% dividend yield, which is an excellent payout. Shares trade considerably under book value as well.

The bottom line

It must be frustrating for folks who [missed the bottom](#), but we must face facts. There will be no stock market crash in the latter half of 2020. The economy should continue to recover, and investors will start buying many of Canada's cheap stocks as they get more bullish.

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