Caution: The Market Is Set for a 30-40% Drop Soon!

Description

Many investors were happy when TSX showed a swift recovery. At the same time, many investors speculated that the market recovered too soon for its own good. Many financial experts are expressing concerns that confer the fear that the market is currently propped up on false hope and naïve optimism.

What happened in March was simply a market crash, and even that was a broader spectrum than some of the previous recessions. The recession and, as some of the experts are predicting, a full-blow depression is well underway. The true market recovery might be way off in the future.

Another crash

Gary Shilling is a famous financial analyst and advisor across the border. In an interview with CNBC, he stated his views about the L-shaped recovery (a slow recovery, weighed down by persistent unemployment and slow economic growth). He also shared his speculation about the market plunging again by 30% to 40% in the year.

Now, it might not be as sharp a decline as it was before. Shilling believes that the market will fall again, as people and investors start to see the full picture of the economic mess. Instead of a sell-off frenzy, the market might see investors unloading weak stocks systematically, and become wary of putting their money back into the game, opting for other assets instead.

If that happens, the market will go down slowly and recover only when the broader economy actually shows some signs of getting better. He believes that the current situation is reminiscent of the 1930 depression, and the stock market might follow the same pattern. Oversimplified stimulation packages that are injecting a lot of money into the system have temporarily buffed up the economy. If it doesn’t start showing a real recovery soon, these packages might actually work against the system.

Another opportunity

If TSX follows the broader pattern and falls 30-40% again, it would allow investors to invest in stocks trading at rock-bottom prices. You may want to keep an eye out for some fantastic stocks that are too overvalued for you right now and wait until they drop into your desirable valuation territory.

One of the stocks you may want to consider is **Open Text** (TSX:OTEX)(NASDAQ:OTEX), a tech stock that has just recovered from its previous crash. One of the reasons why this stock seems like a good choice is that, unlike other tech stocks, when it recovered from the crash, it didn't show an explosive growth rate like many others in the sector did. The stock picked up its pace from what it was before the crash.

If other tech stocks are propped up on the hype and are oversold just because of the current situation, sooner or later, the growth might run out. But that's a big *if* to deal with. Still, Open Text seems like a better, steady grower with a lot of growth left to achieve. The company's trailing price-to-earnings is 41.9 times, which might seem a lot, but compared to the rest of the sector, it's actually relatively modest.

It's a Dividend Aristocrat with a seven-year streak. The yield isn't much, but the growth is decent enough. The company's decade-long CAGR is over 20%. Another decade like this and $10,000 in the company can grow to about $62,000.

Foolish takeaway

Another market crash is a genuine possibility. Though another sell-off frenzy and sharp decline are unlikely, investors should prepare for a long stretch of not a lot of activity. That may include increasing liquidity and rearranging your portfolio to better deal with the situation. But it's also an excellent opportunity to buy more.

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