Is a Swift Market Crash Unavoidable in 2020?

Description

Before the March crash, the global economy saw one of the most consistent and long periods of stability and prosperity. But it only took a little virus and a few months to turn everything down on its head. Canada's housing market was already facing a bubble burst when the pandemic hit, but it's only just one piece of the puzzle. The stock market was already a bit overvalued, but the crash and subsequent recovery have propped it up even more.

TSX has almost recovered, and it's currently just 6.45% lower than its start-of-the-year value. The swift recovery, led mostly by the tech sector, doesn't resonate with the economic condition of the country. The rapid recovery after a drastic sell-off has made the market even more overvalued. The Warren Buffett indicator (a ratio of total market valuation and GDP) puts Canada at 110, which is just a tad overvalued.

But the picture becomes grimmer if you consider the GDP forecast for the country, which is expected to shrink by at least 20%. So, if TSX keeps standing on false legs as GDP drops, the market will become dangerously overvalued, and a slight nudge might tip it off. That's why another swift market crash seems unavoidable to many. This means you might have another chance of catching many fully ripe stocks as they fall to (or below) their fair valuations.

An overvalued aristocrat

Dividend Aristocrats that also offer great capital growth opportunities are usually overvalued, and it's understandable why. One such aristocrat is **Boyd Group Services** (TSX:BYD). The company has been increasing its dividend for 13 consecutive years, and the yield is minuscule (0.28%). But the payout ratio suggests that it's highly stable and likely to continue for the foreseeable future.

There is a reason this aristocrat with such a tiny yield is so overvalued that it's trading at a price to earnings of 63 times, and that's its growth potential. The company returned over 250% to its investors in the last half-decade, and the CAGR is about 28.91%. That's enough to turn your $10,000 investment into a $126,000 nest egg in just a decade.

Boyd Groups works through several brands, has a well-diversified service portfolio, and a sizeable footprint in North America. It's the largest non-franchised collision repair centre operator in the region. The stock is currently trading at $195.6 per share, but it dipped nearly 42% in the previous crash, and even if the upcoming crash isn't as vicious as the one before, the stock is likely to fall to a more fair valuation.

An overvalued cargo stock

Cargojet (TSX:CJT) has become a growth-investor sweetheart, especially since the demise of **Air Canada** stock. The growth monster is brutally overvalued right now, with a price to earnings of 222 and price to book of 8.8 times. Despite falling 38% in March, Cargojet was one of the stocks that showed the swiftest recovery and was back to its pre-pandemic valuation well before May.

Even if this stock falls over 30% again, it might not truly be fairly valued, but that's the best you can hope for with a growth stock like Cargojet. It also pays dividends, but the yield (0.61%) is paltry compared to its five-year CAGR of 44%.

Foolish takeaway

As we are looking into one of the most vicious possible recession (possible depression) in decades, another sudden market crash almost seems unavoidable. If you want to unload risky investments (the ones that have adequately recovered), now would be a good time, before hints of a second wave cause another downturn. And use your liquidity to invest in potent stocks when they hit rock bottom.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BYD (Boyd Group Income Fund)
2. TSX:CJT (Cargojet Inc.)

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