



The “Cobra Effect” Could Devastate the Stock Market

Description

Are we on the verge of a monumental economic collapse because of the massive stimulus packages meant to prevent deflationary depression? Wall Street veteran Larry McDonald describes the scenario as the “Cobra Effect.” The solutions of governments, including Canada, are worse than the problems.

The Bear Traps Report blogger warns of [impending devastation](#) on the stock market. Unimaginable results are in the offing, because policymakers fail to see that the basic assumptions or structures are more fluid than anticipated. Public policy and government intervention in economics are spawning unintended negative consequences.

An anecdote from the east

During British colonial time, many cobras were slithering all over the place in Delhi, India. People were terrified, because the cold-blooded reptiles are venomous and deadly. To eliminate the menace, the government offered money for dead cobras.

The bounty scheme did not solve the problem, as people began breeding cobras. The government eventually stopped paying bounties. With no more incentive, the breeders set the cobras free.

Similar situation

McDonald likens the present situation to the anecdote. Introducing emergency financial aid is the easy part. However, the strategies could backfire. According to Charlie Munger, Warren Buffett’s deputy, the situation gets complicated, as governments give little attention to economics. The defect is that the consequences have consequences, and so forth.

The fiscal measures are overlooking several economic principles, which could have a far-reaching [impact on investors](#). Sooner rather than later, the policymakers will have to adjust to putting things in order. The adjustment process is excellent news, as per McDonald. Economies will eventually survive and thrive after that.

High flyer

The high flyer on the TSX in 2020 is **Cargojet** ([TSX:CJT](#)). Current investors are pleased with the stock's outstanding performance. Last year, the total return was 47.47%, but the year-to-date gain thus far is already 61.6%. Had you invested \$25,000 on December 31, 2019, your money would be worth \$40,398.63. Cargojet pays a modest 0.57% dividend.

Analysts following the stock are forecasting another price appreciation of 20.33% to \$80 in the next 12 months. Unlike passenger travel, demand for air cargo transport is ever increasing. The trend should continue for months or until global supply chains stabilize.

Cargojet is the leader in overnight air cargo services in Canada. Its fleet of all-cargo aircraft flies across North America. The recent Shipper's Carrier of Choice Award affirms its lofty position in the air cargo industry. This \$2.59 billion company scores high in on-time performance, operations and equipment quality, sustainable transportation, and competitive pricing.

Recovery phase

Veteran investors do not panic or run when turbulence hits the market or when there are dire predictions like the Cobra Effect. Should a market crash transpire, it can drive stock prices down. Some of the blue-chip names will sell at fabulous prices. You can scoop them up and benefit from the recovery.

Canada's quick response and rescue packages kept consumer spending alive and prevented bankruptcies. The economy is already in different stages of recovery. If the spending on the COVID-19 Response Plan doesn't exceed the practical limit, the country can rise from the pandemic-induced recession with a less-painful austerity policy.

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