



Warren Buffett: Stocks Are Overpriced

Description

Warren Buffett shared his views about the market being overpriced way before the pandemic hit. It might have been one of the reasons why his company **Berkshire Hathaway** accumulated a massive cash pile to take advantage of an inevitable market correction that follows an overpriced market.

Buffett said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." And despite this mindset, the wizard of Omaha didn't make any significant purchases until the market was months into the pandemic, and many companies had already recovered. Some attributed it to the fact the Buffett probably thought that the market is still overpriced.

Now the Buffett Indicator is endorsing the fact as well.

The Buffett Indicator and its gloomy prediction

The global version of the Buffett Indicator is simply the ratio of the combined market capitalization of all the publicly traded stocks worldwide and global GDP. And that indicator just shot past 100% for the first time in the past 30 months. It last happened in Feb. 2018. Buffett loves this indicator, despite its oversimplification and the fact that its accuracy drops drastically when it's laid out on the global scale.

Buffett stands by the indicator, and he went so far as to call it the best single measure of where valuations stand at any given moment. One instance, where it really came in handy was the dot-com bubble, when the indicator shot way past 100%, and stood at a dangerously high level, before falling below 50%.

So, on a global scale, the markets and stocks can be considered overvalued. And it's signaling another correction, which means that the second crash many investors were waiting for may be right around the corner.

Stock for another market correction

If another crash or even correction is likely, you might want to keep your eyes on **goeasy** ([TSX:GSY](#)). It's an [alternative lending company](#) and has been furnishing personal loans for 29 years. It has served loans amounting to over \$3.9 billion. It has a decent footprint, with over 256 locations.

goeasy is a robust growth and dividend package. It's a newly instated Dividend Aristocrat, and while its yield is not very juicy (2.6%), its [dividend growth](#) is. It increased its dividends to 3.6 times in the past five years. And despite the hard phase that the market is going through, its payout ratio didn't even cross the 30% mark.

A much better case can be made for its growth potential. The company, while it fell almost 70% in the previous crash, has already recovered. If you had invested in goeasy when it crashed, you would have tripled your investment by now. Another crash might let you do just that. Right now, the 10-year CAGR of the company is at 23.5%.

Foolish takeaway

Warren Buffett has been right about the broader market more than he has been wrong. And the indicator, though it's not without its flaws, endorses something that many people were already anticipating: another crash. So, whether or not Buffett acts upon his own advice and buys amazing companies at bargain prices, you should.

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