Will the TSX Stock Market Crash Again?

Description

The stock market was overvalued even before the pandemic-driven crash in March. It has been overvalued for quite some time, and some experts claimed that it was even more propped up at the beginning of 2020 than it was in 2007, before the recession. One difference is that the energy sector, which makes up a substantial portion of the **TSX'**s weight, had already been through a couple of corrections.

Still, the March crash was devastating. But just as the crash was sudden and rushed, so too was the recovery. Many tech stocks were already trading on their start of the year valuations before two months were over. Now, when we are about five months out of our first crash, many stocks have reclaimed their pre-pandemic valuations.

If they were overvalued before the market tanked, they are overpriced now, propped up mostly on market sentiment and hopes of recovery. But the economic devastation instigated by the pandemic is far from over. And it's not the year when investor optimism might be enough to keep stocks soaring high, regardless of the decimated underlying fundamentals.

The stock valuation will most likely reach its appropriate level in a few months, either through a series of corrections or another full-fledged crash. If the latter happens, you will benefit from the second "once-in-a-lifetime" opportunity to buy great stocks at bargain prices.

An overpriced tech stock

The tech sector has shown the most rapid recovery, among others. One of the factors behind such fast-paced growth when the rest of the market was teetering and hoping to find balance, is that the demand for many tech services actually surged. Businesses needed ways to continue operations with half or most of their workforce working remotely. Many tech solutions that didn't see the light of the day before were suddenly in demand.

Kinaxis (TSX:KXS) fits this criterion quite neatly. Still, it would be unjustified to dismiss this company as an "opportunistic grower" because it was a pretty decent growth stock even before the market crashed. But after the market crash, its recovery and growth have been astonishing.

At $201 per share, the company is almost 118% high from its lowest point in March. It recovered so fast that within 30 days of the crash, it was already trading at its pre-pandemic highs.

Since Kinaxis's core product is supply chain software, it's easy to see why it would be in such high demands during the pandemic lockdown. Its second-quarter results demonstrated that Kinaxis's growth isn't purely driven by market sentiment for tech stocks. The company increased its gross profits by 150% and almost doubled its total comprehensive income compared to the second quarter of 2019.

A venture capital stock

Like Kinaxis, **Hamilton Thorne** (TSXV:HTL) was already a decent growth stock before the crash. And even though its recovery returned almost half of what Kinaxis returned to its investors, it's just as overpriced. The bad news about Hamilton Thorne is in its quarterly results. As the tech it offers doesn't have anything to do with e-commerce, its solutions didn't see their demands rise during the pandemic. Thus the second-quarter results fell short of their previous year's counterparts.

The good news is that it's a robust growth stock with a lot of potentials. Currently, it's too overpriced even for more forgiving investors, but another crash is likely to knock it down to a reasonable valuation. Its long-term growth prospects, if we consider its previous five-year compound annual growth rate (CAGR), are very encouraging.

Foolish takeaway

Another market crash isn't a certainty yet, but the warning signs are increasing. One of the reasons why the economy didn't effectively collapse was because, despite painfully high job losses, it is government intervention.

But temporary measures aren't an adequate replacement for proper economic recovery, which is still months or a year away.

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1. Investing
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