3 Reasons a Major Stock Market Crash Could Be Imminent

Description

The stock market crash in early 2020 caught most investors by surprise. The pandemic and economic lock down suddenly swept the world. However, stocks have now staged a nearly complete recovery.

The **S&P/TSX Composite Index** is near its pre-crisis high. Stocks like **Shopify** are trading higher now than they were at the start of the year. Millions of investors have made a lot of money betting on stocks in recent months. However, there are three emerging reasons to be worried.

Buffett indicator

Warren Buffett's favourite indicator of a stock market crash is the stock market's total valuation to the gross domestic product. In other words, if the combined market value of all Canadian stocks is larger than Canada's combined gross domestic product, the market is overvalued and due for a correction.

At the moment, this ratio is at 120%. That could mean the market is overvalued by 20% and another stock market crash is imminent.

PE ratios

Another red flag indicating a stock market crash is the price-to-earnings ratio. The current P/E ratio of Canada's stock market is 22.21. That's the highest ratio in years. In fact, the ratio was only higher in 2016, when it reached 23.3.

However, even this ratio could be understated. Many companies face a decline in earnings and lower profits in the months ahead. As earnings decline, the P/E ratio could rise higher by the end of the year. This indicates that Canada's stock market is priced-to-perfection.

End of stimulus

Canada's government has borrowed a historic amount of money and deployed unprecedented policies to buffer the economy. The economic relief benefits paid to individuals, low-interest loans offered to companies and mortgage payment deferrals for homeowners have artificially lifted the economy.

As these programs gradually end, companies and consumers will be faced with some grim realities. People could cut back on spending as confidence declines and companies could face dented profits. That could also trigger another stock market crash in 2020.

What can you do?

One way to protect yourself from this imminent stock market crash is to invest in a safe haven asset, such as gold.

Barrick Gold (TSX:ABX)(NYSE:GOLD) is probably a top choice for most Canadians. The gold miner has seen its value surge roughly 60% this year. The price of gold spiked as investors grew anxious and governments borrowed excessive capital. If this trend continues, Barrick Gold stock could be a shelter for investors looking to preserve wealth.

Indeed, the world's wealthiest investor, Warren Buffett, has also bet on Barrick Gold. Buffett deployed US$550 million (C$722 million) in Barrick Gold stock in recent months. This indicates that even the smartest investor on the planet is worried about a stock market crash and is moving to gold.

Currently, Barrick Gold currently trades at a P/E ratio of 11.6 and offers a 1.1% dividend yield. It's a rock-solid investment that every cautious investor should consider adding to her portfolio.

Bottom line

There's growing risk of a stock market crash. Warren Buffett is betting on gold and pulling back from stocks. Perhaps regular investors like us should do the same.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date
2025/07/26
Date Created
2020/08/29
Author
vraisinghani