Warren Buffett: A Canadian Market Crash Is Coming

Description

Whether in the country or across the border, the stock market seems primed for another crash. If the market was overpriced before the pandemic and is nearing the same level in just about five months, it means another correction might be right around the corner. There are other indicators, too, like the warning that Buffett Indicator flashed when the global economy to gross domestic product ratio surpassed the level previously seen before the 2000 tech bubble burst.

For the **TSX**, one specific indicator of an upcoming market crash might be Warren Buffett getting rid of **Restaurants Brands International** (TSX:QSR)(NYSE:QSR). Buffett's **Berkshire Hathaway** partly funded the merger that created RBI in the first place.

A suffering business

Along with hospitality and travel, another industry that has suffered quite a lot during this pandemic is the food industry. Public places have been suffering for quite a while, mostly due to COVID-19 restrictions. During the times when restaurants were forced to close operations completely (no takeout or deliveries), people cooked at home.

No foot traffic means the majority of the business is slashed away. All the expensive investments such businesses made in aesthetics of their dining rooms all seem like a waste now. Renting or maintaining expensive premises is simply a drain on the resources. This has resulted in RBI, one of the five largest fast-food chains in the world, to close off hundreds of underperforming locations.

While one of the subsidiaries, Popeyes, saw the sales soar, Tim Hortons is suffering. The Canadian giant was already facing backlash and loyal customers turning away from the brand (partly because of the merger), and now the pandemic has made the situation even worse. RBI's net earnings declined by 36% compared to the same quarter last year.

Should you get rid of RBI as well?

Not just yet. While there isn't a lot of hope now, Buffett might come around and reconsider RBI, just like he did with **Suncor**. Even if he doesn't change its mind, getting rid of RBI right now might not be a brilliant move for investors like us.

The bitter truth is that compared to the larger food chains, RBI *is* performing relatively poorly. **McDonald's** has already recovered its pre-pandemic value, whereas **Starbucks** is 11.7% low from its pre-pandemic high and **Yum! Brands** are just 9.6% down. Compared to these fast-food chains, RBI's valuation (20% lower than its pre-pandemic high) seems very weak.

According to the second-quarter results, two out of three brands have underperformed. But selling at its current valuation might not be prudent. Its dividends might be reason enough to keep the company in your portfolio for now. And if you still wish to get rid of it, wait for the stock to rise again. It will probably pick up pace as lockdown restrictions ease up.

Foolish takeaway

If Buffett's move indicates that TSX is about to see another crash, now would be an excellent time to identify which stocks you are going to buy. Look at the previous recovery of any of the stocks you are considering and figure out how low the stocks would have to fall to reach your desired valuation range.

Another crash might be a perfect opportunity to balance any losses you incurred in the first crash.

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