Market Crash Warning: 2020 Could Get Rocked by a Much Bigger Drop

Description

There is a divide when it comes to predicting market crashes and corrections. People like Michael Burry, the person who predicted the 2008 recession and bet against the U.S. housing market, says that there are always indicators. Warren Buffett, however, believes market fluctuations shouldn't bother you if you hold good stocks for long enough. But this time, even his indicator is warning of a market crash.

The stock market that was overvalued before the market crash has almost recovered to its pre-pandemic levels. And that's despite the fact that the most heavyweight sectors are suffering. The energy sector is seeing the same low-demand scenario, and it's weighty enough to pull down the TSX with it. The tech sector, which spearheaded the market's recovery last time, is down 10.8% (Capped IT index) from the start of this month.

There are other indicators as well, but one thing that solidifies the notion — if another market crash comes, it might be significantly bigger than the last one — that the economy is much weaker now. Most businesses have been suffering, depleting cash reserves, and bringing in a fraction of the revenue they did before the pandemic. So, another sell-off might not only drop their valuations much further but also slow down the eventual recovery.

What to buy if the market crashes

If you believe that another market crash is on the horizon, keep an eye out for expensive growth stocks that are too overvalued to touch during a strong economy. One such stock is **Descartes Systems Group** (TSX:DSG)(NASDAQ:DSGX). During the recent sell-off, the stock dropped by almost 15%. And it's still rocking a price to earnings of 61.7 times and a price to book of 5.1 times.

If another crash comes and is more powerful than the last one, the stock might fall over 40% in valuation (last time it dropped almost 32% in value). But there is no surety. Still, at that price, the stock might be a more reasonable buy. It's fundamentally a strong company, with a lot of focus on cloud and SaaS, which is a rapidly growing market and has a strong future. It also has a very strong balance sheet and minimal debt.

And if the market doesn't crash?

It seems too optimistic that the market won't crash, but in case it doesn't, and you still want to buy a discounted stock, you may consider the aristocrat **iA Financial** (TSX:IAG). With a price to earnings of 7.4, price to book of just 0.9 times, and a price that's 39.5% down from its pre-pandemic high, it is one of the most discounted stocks currently available.

The weak point of the stock is its slow recovery and its balance sheet, which isn't weak, per se, but it's also not too solid. The strong points are its yield (4.19%), secure payout ratio (34.7%), and capital growth potential. Before the crash, the company's stock was experiencing a growth spurt, which started in 2019 and increased the market valuation by almost 70% in 14 months.

Another point in its favour is its dividend-growth rate. The company increased its payouts by 61% in the last five years.

Foolish takeaway

An impending market crash would also require you to "prune" your portfolio. But only if you think you have stocks that might not be good enough as long-term holdings. If they have gained enough in the recovery phase after the March cash, you might consider selling them to realize the profits. It will solidify your portfolio while raising cash that you can use for the market crash shopping spree.

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TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)
3. TSX:IAG (iA Financial Corporation Inc.)

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