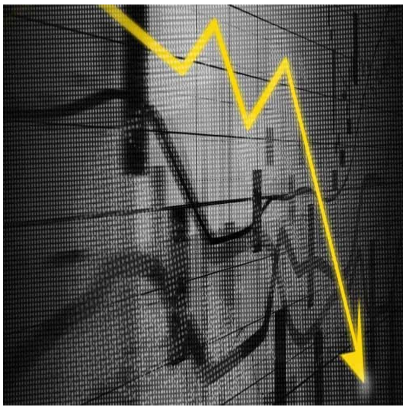

3 Signs the Canadian Stock Market Will Crash

Description

The stock market crash early in 2020 caught most investors off guard. The pandemic and ensuing lockdown shook the world, and the global economies took a steep nosedive in April and March 2020. However, the stock markets have recovered to better valuations and are back to all-time highs.

Several stocks have recovered to pre-pandemic valuations, and some companies are trading for higher valuations than at the beginning of this unpredictable year. However, there are a few worrying signs that we could see another and possibly more devastating market crash.

I will discuss the three signs indicating that the Canadian stock market will crash again and what you could do to leverage the situation.

The Buffett Indicator

The Buffett Indicator is Warren Buffett's favourite indicator of whether a stock market crash is imminent. The ratio essentially compares the stock market's total valuation to the gross domestic product. If the combined market value of all Canadian stocks is larger than the country's gross domestic product, the market is in the overvalued territory and is overdue for a correction.

At writing, the Buffett Indicator ratio stands at 115% for the Canadian stock market. It means that the stock market is overvalued by 15%.

Price-to-expense ratio

The price-to-expense ratio of Canada's stock market is also another major sign that a significant market crash can happen. Canada's stock market's price-to-expense ratio is 22.21 — the highest it has been in several years. The only time Canada's stock market price-to-expense ratio was higher was back in 2016 at 23.3.

As several companies face the true economic impact of COVID-19 in the coming months, the ratio could become worse. A decline in earnings could lower profits for Canadian companies trading on the TSX, and the price-to-expense ratio could climb even higher.

The end of CERB

The Canada Emergency Response Benefit (CERB) was part of Canada's immense COVID-19 Response Plan. It helped Canadians with their essential expenses while being jobless due to the lockdown. The economic relief benefits paid to individuals, low interest loans for companies, and mortgage deferrals for homeowners boosted the economy artificially for several months.

September marks the end of CERB, and the Canadian economy is entering the COVID-19 economy. With the end of all these benefits, the Canadian people will face some harsh realities that the government stimulus protected them from for several months. The result could be a significant decline in the stock market activity and possibly another major crash.

Protecting yourself

Gold is an asset that climbs in value as the stock market declines. Betting on the safe-haven asset could be a way to protect yourself from the imminent stock market crash. **Barrick Gold** (TSX:ABX)(NYSE:GOLD) is an ideal choice for Canadians when it comes to gold stocks.

The Toronto-based gold and copper mining company saw its value increase by almost 55% this year. The price of gold is rising, as investors become more anxious and governments borrow excess capital. The economy is weak, and the continuing weakness could see companies like Barrick Gold provide investors with a safe place to park their money to preserve wealth.

Barrick Gold has also become a Warren Buffett stock as the Oracle of Omaha bet on Barrick with a US$550 million acquisition of ABX shares in recent months.

Foolish takeaway

The risk of a stock market crash keeps increasing. Buffett is investing in gold, despite being opposed to it, and he is exiting his position in some high-quality stocks. Perhaps you should consider making suitable moves to protect your capital from the incoming market crash as well and invest in a stock like Barrick Gold.

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