3 Crazy-Overvalued TSX Stocks to Avoid in a Market Crash

Description

The **S&P/TSX Composite Index** has managed to build momentum since suffering from the market crash in February and March of this year. However, it has slipped from its late-August peak. Today, I want to look at three stocks that look pricey. In the event of a market crash, stocks that are perceived as bloated or overvalued are often the worst victims of volatility.

Whether a stock is "expensive" or not has been an increasingly difficult determination to make since the early 2010s. Global markets have gorged on loose monetary policy. This has created an environment where market veterans and value investors constantly decry what they perceive to be a bloated market. Today, I want to look at three TSX stocks that look expensive by my determination. These equities may be particularly vulnerable in a market crash.

Why a market crash could hurt this EV-linked TSX stock

Lithium Americas (TSX:LAC)(NYSE:LAC) operates as a resource company that boasts properties in the United States. In September, I'd discussed why lithium stocks like this were surging. However, at the time, Lithium Americas was still in solid value territory. Its shares have surged 47% month over month. Market crash or no, now may be the time to take profits.

The catalyst for lithium stocks was a favourable forecast from Wood Mackenzie. Wood Mackenzie projected that lithium-ion battery production will quadruple by 2030. This is due to increased electric vehicle demand. However, Lithium Americas is still a long way away from becoming a true player in lithium production. The stock last had an RSI of 66, putting it just outside technically overbought territory.

An exciting stock that looks overheated

WELL Health Technologies (TSX:WELL) has been one of the most explosive stocks on the TSX in the spring and summer of 2020. There is good reason for this. Telehealth is one of the most intriguing developments for the healthcare and technology space. The COVID-19 pandemic has forced healthcare providers to be creative in offering services while also following safety protocols. WELL Health has stepped up.

In the second quarter of 2020, the company achieved record quarterly revenue of $10.5 million and gross profit soared 88% year over year to $4.2 million. WELL Health's quarterly telehealth visits rose sequentially by 730% to nearly 125,000 telehealth visits. The company is poised to make waves in the 2020s.

Investors should be excited about these positives. However, WELL Health would be vulnerable in a market crash. Its stock last had an RSI of 67, which also puts it dangerously close to overbought territory.

This top TSX stock was pummeled in the March market crash

Back in the spring, I'd asked whether investors should follow the mantra "sell in May and go away." **Shopify** was one of the stocks I'd targeted as being overvalued. This Ottawa-based tech giant is no stranger to short calls. Famed short-seller Andrew Left has questioned Shopify's valuation on several occasions. His criticisms sparked a sell-off in late 2017 and made headlines in 2019. In the latter case, Shopify was trading below $150. It closed at $1,361.69 on September 30. Yikes.

That said, Shopify took a big hit during the March market crash. It fell below the $500 mark, only to come storming back in the spring and summer. It has been inadvisable to bet against this scorching-hot e-commerce stock, but I don't want to be holding it in a market crash.

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