A Classic Sign That the Stock Market Might Crash Just Happened

Description

A market crash is hard to predict. That statement is partly true. We have gone through enough market crashes to know the signs and be reasonably sure about whether or not a market crash is coming. But the problem is that the market nowadays is evolving too rapidly to stick to its historical patterns. Also, it's easier to stir investor sentiment by leveraging the right social media and marketing tools.

But predicting that a market crash is coming is a walk in the park compared to pin-pointing when a market crash is coming. This is why relatively few people truly benefit from a market crash. But as Michael Burry said in *The Big Short*, there are always markers.

A classic sign of the market crash

Even with so many things changing so rapidly with technology, some classics haven't lost their utility. One of these classic signs of an impending market crash is the Buffett Indicator — the ratio between a country's GDP and total market capitalization of the stock market. The ratio tells us how unrealistically propped up the stock market is compared to the actual economy.

The ratio for Canada is relatively stable, but the situation across the border is drastically different. But a major market downturn there would most likely instigate a sell-out frenzy here as well. The Buffett Indicator for the U.S. recently reached an all-time high, but it normalized a bit during the tech sell-off last month. But the ratio is moving upward again and is currently standing at 179.9%.

The U.S. market is ridiculously overvalued, and the market in Canada is marginally overvalued. Whatever positive sentiment propelled market's recovery and growth will take a significant hit when a second wave of the pandemic truly manifests. And that might plunge these overvalued markets into a severe crash.

What to buy

Tech stocks have proven themselves to be great recovery options, but they are too overpriced right now. And even if a market crash drops their value by 15-20%, they won't be nearly as attractive as companies from some other sectors. One company you might want to keep an eye on during another crash is **FirstService** (TSX:FSV)(NASDAQ:FSV).

In the first crash, the stock fell by about 42%. Since then, it has grown almost 110%, and considering its price-to-earnings ratio of 93.8 and price-to-book ratio of 9.4, it's significantly overpriced right now. But if another market crash bumps the price down 40-50%, it would be a fantastic opportunity to lock in this growth monster in your TFSA.

Foolish takeaway

Knowing what to buy is easy in a market crash, since almost everything is at a discount. The problem is when to buy. If you wait too long, the stock might start recovering at a rapid pace. Similarly, if you jump the gun, you might lose the opportunity to buy the stock at its best price. You will have to keep a close eye on the stocks you want to buy during a crash, so you don't miss out on the perfect time to buy.

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