Housing Crash 2020: Your Home Could Have Negative Equity

Description

COVID-19 resulted in the worst global economic crisis since the crash of 2008. The UBS Global Real Estate Bubble Index for 2020 indicates that Canada's housing market is at risk of being a bubble ripe to burst. Despite the increasing warnings, the Canadian housing market has remained resilient to the effects of the pandemic.

default watermark

Canadians rely a lot on the housing market. Many Canadians have a significant chunk of their finances tied up in real estate. While the housing market has not crashed yet, there are increasing signs of an imminent correction. A housing crash could result in substantial financial trouble for Canadians banking on their real estate investments.

Nearly interest-free borrowing

Typically, borrowing money consists of the principal plus interest for the term of the loan. When you apply for a loan, you look for lenders offering you the best rate. Amid the already low-interest-rate environment, Canadians have been looking for financing at nearly 0% interest. You can earn more money by borrowing interest-free and using it as investment capital.

However, there is a risk with the approach. Your amortization will be fixed, but returns from your investments can vary. Even amid a rising market, intelligent investors would reconsider using debt to invest. Despite the risks, many people choose to borrow money through the home equity line of credit (HELOC).

The troubles with HELOC

A HELOC can be an option for someone intending to borrow funds for investment or for any other reason. It is a secure form of lending that allows you to use your home as a guarantee to pay back the loan. Even if the lender charges no interest, there is a risk of losses.

Many Canadians have used HELOC to borrow money. The line of credit makes it easier for people to live beyond their means. However, it is the same credit line that can result in negative equity for you when the housing market crashes.

Depending on how much you have borrowed through this line of credit, you could be in for substantial losses. A major housing market crash could devalue your home's value and result in unimaginable losses. It would be wise to make investments that can help you offset your losses if the housing crash happens.

An asset to counter the negative equity

It would be ideal to see substantial capital growth to counter significant losses. A high-growth tech stock that can perform well, despite the turbulent economic landscape could be the ideal way to go. I think that **Lightspeed POS** (TSX:LSPD)(NYSE:LSPD) could be ideal for this purpose.

The high-growth tech stock is on an excellent run, trading at 52-week highs. The software development tech company offers omnichannel point-of-sale platform solutions for businesses and is seeing rapid growth amid the pandemic.

The e-commerce sector is booming during this time, and Lightspeed is riding the wave to see massive gains. Lightspeed POS is trading for $50.75 per share at writing. At its current valuation, the stock is up 22.70% within the space of a week.

default watermark

The latest quarter showed a more than 60% increase in its revenue growth and a 68% growth in its customer base. The company blew well past analyst expectations through its strongest quarter yet, and it has the potential to keep growing.

Foolish takeaway

If you are also at risk due to the imminent housing market crash, I would suggest taking proactive measures to mitigate or even offset your losses. Investing some of your capital in Lightspeed POS could help you along the way to save your money.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. TSX:LSPD (Lightspeed Commerce)

Category

1. Dividend Stocks
2. Investing

Date
2025/07/07

Date Created
2020/11/12
Author
adamothman

default watermark

default watermark