Market Crash Alert: The TSX Reaches a Record High, Is it Time to Get out?

Description

The **S&P/TSX Composite** (TSX:^OSPTX) trades at $18,028 as of writing, reach the highest point in not only the last year, but… ever! That's a 3% increase for the year, but 53% since the market crash in March 2020. It has many people wondering if a market crash is on the way and if now is the time to get out.

Even if you're not invested in the S&P/TSX directly, this composite is a direct reaction to the Canadian economy as a whole. However, we should know that the economy isn't trending upwards of 53%. That means investors should start monitoring closely their investments and exchange traded funds (ETFs).

The Warren Buffett method

There are plenty of indicators to look at to see whether investors should prepare for a downturn. One method is the Warren Buffett method. For this he uses the **Wilshire 5000 Total Market Index**, which right now trades at 22% above where it was a year ago. He then divides this by the gross domestic product (GDP) for the United States. In December 2020, that came out to a whopping 180%, where you want it far closer to 100%.

So that shows the stock market is overvalued in the United States, but remember that their economy has far more chance of rebounding quicker than Canada. The U.S. is partnered with Canada on so many trade deals, so a downturn in the U.S. would likely mean a downturn for us as well.

Canadian indicators

As for Canada, debt continues to soar as the company tries to provide Canadians with COVID-19 relief, both individually and for businesses. Never mind trying to buy up and distribute the vaccine. Then there's the housing market which is still predicted to crash, though it was slowed by the pandemic.

Luckily, for investors looking to keep it simple and safe, the **iShares S&P/TSX 60 Index Fund** (TSX:XIU) is a great option with a low price-to-earnings ratio (P/E) of 5.5 as of writing. It also provides a

3.02% dividend yield, and trades a reasonable 7% higher than it did a year ago. So that means it should be fairly valued and includes defensive stocks should there be a downturn.

Foolish takeaway

Now we can't predict the future. There may be a market crash, there may not be. However, by using these indicators investors can look for clues that they may need to start paying attention. But what it really comes down to are two items: when do you need the cash, and can you just wait?

If you're a long-term investors, a market crash shouldn't really matter. If you're planning to hold your stocks for a few years or even a decade or more, then don't worry about a market crash if you have solid stock investments. Instead, put on those blinders. Better still, put alerts on your watch list to buy up more solid stocks if there's a pullback.

But if you do want some of that cash, or have stocks you're not sure about, now is a great time to do some research into strong stocks that could see you through for decades. Luckily for you you're already on the Motley Fool site, so you're already off to a great start!

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