Warren Buffett: Why Hasn't the Market Crashed Yet?

Description

Is the stock market heading for a crash in 2021? Pundits seem sure a severe correction is coming because of the irrational exuberance that's happening at present. Some analysts liken it to the events in the late 1990s when the dot.com bubble burst. We witnessed the longest bull market, highly successful Initial Public Offerings (IPOs), and the GameStop mania pitting amateur traders against hedge fund managers.

The stock market hasn't crash yet but, for Warren Buffett, people are playing with fire. His reference point for fearing a repeat of the dot.com bubble is the market's high valuation. Its current value is double that of America's gross domestic product.

Trading frenzy

After posting an all-time high the day before, the **S&P 500 Index** fell (0.3%) on February 12, 2021. The **Dow Jones** and **NASDAQ** slid too by .08% and 0.41%, respectively. Oil prices also dropped, with West Texas Intermediate crude and the international benchmark Brent crude falling 1.4% and 1.3%, respectively.

Buffett's disciples are looking at their idol's indicator, which seems to suggest the stock market is significantly overvalued. The **Berkshire Hathaway** chief said in 2001, "The ratio (stock market capitalization to annual GDP) has certain limitations in telling you what you need to know. Still, it is probably the best single measure of where valuations stand at any given moment."

While the Federal Reserve continues to pump liquidity and fuel new record highs, the COVID-19 pandemic depresses economic output. The Buffett indicator stands at 194%, which is well above the 159.2% just before the dot.com bubble. Hence, the Oracle of Omaha sees a very strong warning signal.

TSX post new record high

The **Toronto Stock Exchange** (TSX) rose to a record high on January 12, 2021, and closed at

18,460.20. On Wednesday, the Reddit community rallied behind cannabis stocks. Thus far this year, the TSX is up 5.89% as nine of the 11 primary sectors are in positive territory. The healthcare sector is the hottest with its 50.84% gain.

TMX Group CEO John McKenzi said that 45% of the TSX trades in January 2021 were from retail investors, adding that retail interest in the stock market will be around for some time.

A real estate investment trust (REIT) attracting attention is **NorthWest Healthcare Properties** (TSX:NWH.UN). This $2.28 billion REIT is a passive income machine. The stock pays a lucrative 6.15% dividend. A $120,000 investment will generate $7,380 in passive income.

If you plan to max out your Tax-Free Savings Account (TFSA) in 2021, NorthWest Healthcare should be top of mind. Similarly, would-be investors gain access to a portfolio of 189 high-quality and income-producing properties. The portfolio consists of medical office buildings, hospitals, and clinics.

NorthWest Healthcare's competitive advantages are long-term leases and stable occupancies. This REIT is also the only stock in the cure sector that operates on a global scale. The property locations are in North America, Australia, and Europe.

Unexpected strength

Canada's economy displayed unexpected strength, particularly in the last two months of 2020. Gross domestic product expanded by 0.7% and 0.3% in November and December, defying expectations. RSM Canada predicts economic growth, albeit it will be uneven across sectors.

The advisory firm foresees a 4% Canadian output expansion in 2021 and 2022, perhaps reaching full potential until 2023. According to RSM Canada, non-financial corporations are well positioned to lead Canada out of recession due to its quick turnaround.

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1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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