Warren Buffett Indicator Is Flashing a Market Crash Warning Sign

Description

Warren Buffett had made a fortune by investing in good businesses when they traded at a favourable valuation. It's only natural that market crashes have always been his favorite times to initiate a buying spree. **Berkshire Hathaway** usually has a sizeable enough war chest full of liquidity, allowing the company to cherry-pick distressed businesses in the wake of a market crash.

Thus, when Buffett barely made a dent in the company's fund after the 2020 crash brought the valuation of a lot of good companies to an all-time low, people were skeptical. One view was that Buffett considered the market extremely overpriced, and when it recovered swiftly with the underlying economy in ruins, companies became even more overvalued from Buffett's perspective.

It also indicated the Buffett might be waiting for another market crash, which will finally knock the market down to adequate levels.

Buffett indicator's warning

The Buffett indicator has been working overtime for some time now. It has been reaching new heights ever since the 2020 crash, and right now, it has gone to an all-time high of 195%. It's a simplistic ratio of U.S. gross domestic product (GDP) and total market capitalization of U.S. businesses, and right now, it's indicating that the stock market is almost double the underlying GDP.

Despite the fact the Buffett is quite partial to this indicator and considers it "probably the best single measure" to value the market, it's not a very accurate indicator. It doesn't cover sector-wise inconsistencies, and there is a significant time-lapse because the current market valuation is compared against previous-quarter GDP.

What it shows is that the market has become bloated on optimism and is not standing on strong financials. Once the optimism dies, so would the growth momentum, and the market might come crashing down — and a crash in the U.S. could be felt in Canada as well.

A stock for the market crash

TFI International (TSX:TFII)(NYSE:TFII) is a Montreal-based transportation company and a North American logistics leader. The e-commerce network that the company operates is spread out over 80 major cities in Canada, the U.S., and Mexico. It employs over 8,200 drivers and has over 360 facilities in 80 cities. TFII also owns over 80 operating companies.

Not only is it well poised to benefit from an e-commerce boom, as evident from its after-crash growth of about 294%, it's also a decades-old Dividend Aristocrat. While the company is currently quite overpriced right now, a market crash and sudden devaluation won't just allow you to pick it up at a significant discount; you might also be able to lock-in a decent yield.

In the last crash, the stock price dropped over 48%, and if the pattern repeats itself, you might be able to add a very profitable Aristocrat to your portfolio.

Foolish takeaway

As Buffett indicator flashes the warning sign, Warren Buffett might be creating his after crash strategy and eyeing up good businesses, and that's what you should do as well if you believe another market crash is coming. TFII is just one option. While several great companies are currently too overpriced, a market crash might knock them down to your desired price range.

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