The Buffett Indicator Is Flashing Red: Are Stocks too High?

Description

Warren Edward Buffett turned 91 years old on August 30, 2021. Despite the challenging environment in the last 12 months, the legendary investor and his conglomerate, **Berkshire Hathaway**, had a productive run. However, September might not be a fitting birthday present.

The Buffet Indicator is flashing red, which means stock prices are too high for his comfort. With his market gauge spiking 205%, a future market crash looms large. The said indicator simply combines the market caps of all publicly traded U.S. stocks and divides them by the most recent quarterly gross domestic product (GDP).

Epic bubble

Buffett remembers the indicator surging to a record high during the dot-com bubble and before the 2008 financial crisis. Investor Michael Burry of the "Big Short" fame and market historian Jeremy Grantham predicts an epic bubble soon. Meanwhile, Canadians seem oblivious of the warnings because the **Toronto Stock Exchange** continues to post new highs.

The TSX could be overvalued, too, following **TMX Group's** disclosure that it breached $4 trillion, including the **TSX Venture Exchange**, for the first time in June 2021. Nonetheless, it's a thriving marketplace for Canadians to make money in 2021. If an impending market correction worries you, the TSX has safety nets for risk-averse investors. You can prep up your stock portfolio or prepare it for any eventuality.

Almost 50 years of dividend increases

Investors in **Canadian Utilities** (TSX:CU) are likely to stay on and not dump the utility stock before, during, and after a market crash. The $9.59 billion diversified utility company is second to none when discussing dividend growth streaks. Its record of dividend increases is an impressive 49 consecutive years.

I don't think Canadian Utilities will falter as it aims for five decades-long dividend growth streak. At $35.62 per share, the utility stock pays a lucrative 4.94% dividend. The beauty of owning this asset is that dividends are growing every year. Your investment will compound faster as you keep reinvesting the quarterly dividends.

Furthermore, the business is enduring. All five utilities, namely electricity transmission and distribution, natural gas distribution and transmission, and international natural gas distribution, contribute to revenue. The cash flows of Canadian Utilities are secure as it derives earnings from regulated sources (95%) and long-term contracts.

Growing dividends

Emera (TSX:EMA) is also from the utility sector. While the dividend growth streak of this $15.18 billion diversified energy and services company pales compared to Canadian Utilities, the yield has grown by more than 8% compound annual growth rate in the last decade.

As of September 13, 2021, the utility stock trades at $59.18 per share at writing. Apart from the 13.21% year-to-date gain, investors enjoy the 4.31% dividend. Management has plans to increase dividends by 4% to 5% annually through 2022. The target is achievable because the company expects the base rate to grow by around 7.5% to 8.5% by 2023.

The dividend payments are sustainable, given Emera's rate-regulated utilities, strong earnings growth, and long-term rate-based growth profile. Like Canadian Utilities, this utility stock is recession-proof.

Capital protection

Some market observers say the Buffett Indicator isn't accurate. Still, when the Oracle of Omaha speaks, people listen. It won't hurt to heed the warning, but you should prepare just in case. Canadian Utilities and Emera are safety nets. You have capital protection plus growing dividends in your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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