



This Famous Investor Is Hoarding Cash

Description

Seth Klarman is one of the greatest investors in history. For decades, he's compounded shareholder capital by more than 20% annually. He stays under the radar, but every now and then, reports surface about his biggest bets. Today, he's betting big on **Cheniere Energy**, **Fox**, and **ViaSat**.

His biggest position, however, isn't a stock — it's cold, hard cash. Some reports suggest that he could be holding more than 30% of his portfolio in cash. Is Klarman anticipating a sudden market decline? If you want to protect the value of your portfolio, it's important to understand what's going on.

Stock markets are tidal

The tide goes in, the tide goes out — that's one of the most popular sayings among stock pickers. It doesn't matter how hard you try; most investments will be affected by market-wide forces. When markets are rising, it gets harder to find bargains. When markets are plunging, bargains are everywhere, but no one wants to touch them.

The tidal nature of markets is a huge factor in Klarman's investing strategy. When markets are expensive and bargains are tough to find, he doesn't force positions. Instead, he simply lets his cash levels rise. When deals become more plentiful due to stock market declines, he deploys his cash hoard.

It's important to note that he *isn't* timing the market. As another famous investor once said, timing the market is like playing poker with the best. What Klarman is doing is simply buying more stock when he has more conviction and buying less stock when he has less conviction. As long as there are deals to be had, Klarman will continue to buy, no matter what the market overall does. If he can't find deals, he'll keep a heavy cash position, even if markets are dropping.

But deals are out there

If Klarman is indeed building a cash hoard, it wouldn't be surprising. Stock markets, especially in North America, are historically expensive. The dividend yield on the **S&P 500 Index**, for example, is close to

a 100-year low. If you're a value investor, it's been a tough couple of years.

Commenting on the difficulty of uncovering promising investments, Klarman urged investors to get "creative" in their process. It's likely time to explore new territory — scout stocks and industries that aren't on the radar of most big investment banks or hedge funds. One of those areas may be cannabis.

While the cannabis industry enjoyed a surge of optimism last year, many notable names have fallen by 50% or more. **Green Organic Dutchman Holdings**, for example, is more than 70% off its high. Once a multi-billion-dollar company, the valuation is now below \$900 million. The former optimism has quickly devolved into pessimism.

Now is the time to search for deals. Green Organic Dutchman is expected to go from \$3 million in quarterly revenues to more than \$200 million in annual revenues by next year. This explosive growth is now being priced at a discount. If you're having trouble finding underpriced stocks like Klarman, take a look at the fallen angels of the pot industry. The [cannabis 2.0](#) revolution could soon have a resurgence of interest.

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