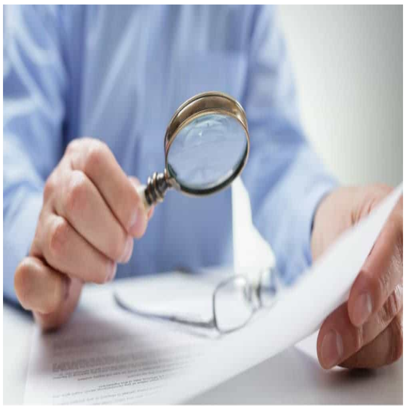

Is Warren Buffett Preparing for a Stock Market Crash?

Description

There hasn't been this much volatility in quite some time. Despite the recession fears, the big ups and downs, and the massive number of uncertainties, the stock market remains a few percentage points off its all-time highs.

With a U.S. president who seems to gauge his success by the performance of the stock market, remarking on the highs at every chance possible, some are feeling cautiously bullish, like Prem Watsa of **Fairfax Financial Holdings** (TSX:FFH), called Canada's Warren Buffett.

Stockpiling cash

The real Warren Buffett doesn't seem that quite as bullish, with **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) hoarding record sums of cash, around $122 billion (and growing) as of the end of June. Berkshire has been a net seller in the first half of the year, and that has got to be ringing some alarm bells in the ears of investors.

The Oracle of Omaha is best-known for "*not swinging*" on every pitch that's thrown his way, if the price isn't right. And with markets exhibiting off-the-charts volatility and an apparently impenetrable ceiling, it seems like Buffett is more than willing to sit on the sidelines until he gets some half-decent pitches to swing at and hopefully knock out of the ballpark.

As Berkshire continues to be a net seller of stocks, cash flows from operations will continue to add to its balance sheet. This brings up a question: is Buffett preparing for a market crash?

His massive cash hoard and lack of activity imply that stocks could be on the expensive side, but that doesn't mean investors should brace themselves for a +50% drop like in 2007–08, even with the inverting yield curve flashing and the overly bearish sentiment on any financial TV show you'll tune into.

As an insurer, Berkshire needs a generous float to cover unfortunate scenarios, so investors shouldn't follow Buffett by hoarding record amounts of cash, especially with their TFSAs. While it can't hurt to keep plenty of dry powder on the sidelines with the hope of buying shares at a fraction of their current price on the dip, it doesn't make sense to sell everything to wait for a crash that may never come.

Buffett may have been a net seller of stocks lately, but that doesn't mean he's gradually offloading a majority of his equity exposure. Stocks are still the only game in town for those who want optimal results over time. Should the markets serve up another +20% drop, as they did last Christmas, Buffett will surely be buying hand over fist, but until then, he's going to remain patient. Not because the yield curve is inverting, but because he doesn't see opportunities to pay a dime to get a dollar, so to speak.

All-weather investments

If you are a bit rattled about the high risk of recession but don't want to make a rash decision by exiting entirely from the markets, you may want to consider owning shares of Berkshire or Fairfax, two "all-weather" investments that are about downside protection as much as realizing upside.

Given the unfavourable USD/CAD rates, Fairfax may seem like a more logical choice, especially since the company retains hedge bets that will dampen any downside in the event of a steep market crash. For now, Watsa remains cautiously optimistic on President Trump, and with shares of Fairfax trading at near decade lows, Fairfax seems like a compelling safety bet with a ridiculously low price of admission.

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CATEGORY

1. Investing

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1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. TSX:FFH (Fairfax Financial Holdings Limited)

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