



Is Warren Buffett Making a \$122 Billion Bet on a Market Crash?

Description

The world's most popular investor may be indicating that the stock market is overpriced and due for a correction. At the end of June this year, Warren Buffett's **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) reported a cash pile of over US\$122 billion.

To put that into perspective, the holding company's cash hoard is worth over 60% of the investment portfolio. According to the same report, Buffett's portfolio of public companies is now worth US\$208 billion.

The fact that the world's most successful investor, a man who once told reporters he "hates cash", has allowed his cash pile to bloom should serve as a clear red flag for investors across the world, particularly in North America.

The only other time in Buffett's career the allocation reached these levels was in the years leading up to the financial crisis of 2008-09. Cash as a portion of the portfolio touched a peak at 60% in 2004 and hovered above 40% until the recession hit in 2008.

What does this mean for Canadian investors?

Canada's economy is joined at the hip with its larger neighbour to the south. With this in mind, Buffett's implication that America's stock market is overvalued should apply to Canadian stocks as well.

One of his favourite macroeconomic measures to monitor valuations is the ratio of the nation's stock market to the national output. Put simply, if the combined value of all listed companies is more than the gross domestic product (GDP) in any given year, the market is overvalued and investors should move to cash.

In the U.S., this ratio touched 146% during the dot-com bubble and 137% at the height of the subprime mortgage crisis of 2007. The ratio is now over 154%. Meanwhile in Canada, the ratio of the stock market's combined value to GDP hit 136 in 2007 and is now above 134.

I think Canadian investors can safely assume that the stock market is overheated and could correct within the next few years.

Buffett's Canadian counterpart, Prem Watsa, seems to be hoarding cash and moving allocations as well. At the end of June, **Fairfax Financial Holdings** ([TSX:FFH](#)), Watsa's investment vehicle, held US\$5 billion in cash and cash equivalents, while 65.8% of the underlying investment portfolio was dedicated to cash and bonds.

As I've mentioned before, Watsa's investment [track record is comparable to Buffett's](#), so the fact that he is devoting so much to cash, bonds and [foreign investments in India](#) or Africa rather than equities in North America should serve as yet another red flag for Canadian investors.

In fact, Fairfax, with its allocation to emerging markets and cash, could be the ideal hedge against a potential market crash in Canada. The stock offers a 2.3% dividend yield and trades at roughly 8% discount to book value per share. Fairfax could serve as a safe haven for investors worried about a market correction or recession in the near future.

Bottom line

Warren Buffett's US\$122 billion cash hoard could be seen as a bet against the market. Canadian investors have reason to be worried and should consider whether to shift their allocations to either cash or safe havens like Fairfax Financial Holdings.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
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Author
vraisinghani

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