Warren Buffett Is Bracing for a Market Crash: Should You?

Description

It's starting to look like Warren Buffett is bracing for a market crash.

Recent filings revealed that nearly 30% of **Berkshire Hathaway's** portfolio was cash, the largest proportion since before the financial crisis. Although the Oracle of Omaha is known to keep large amounts of cash on hand for big acquisitions, the fact that he's stashing away more than usual may indicate that he sees a dip on the horizon.

Buffett said last year that the **S&P 500** was a buy, but that was before this year's trade tensions between the U.S. and China. More recently, he said that the trade war was affecting his railway business, BNSF, which may indicate that he has changed his mind to reflect new circumstances.

As the saying goes, when a 900-pound gorilla speaks, you listen. However, it may be even more worthwhile to look at how the gorilla is spending money. With that in mind, let's take a deep look at Buffett's [$122 billion cash stockpile]–as well as the other major components of his portfolio.

What the $122 billion cash stockpile really consists of…

It's been widely reported recently that Warren Buffett has $122 billion sitting around in cash. Strictly speaking, that's not entirely accurate; most of that cash horde consists of cash equivalents like T-bills and short-term bonds.

But for stock market investors, the significance is the same: it's capital that Buffett could be investing in stocks, but isn't. Granted, Buffett's situation is a little different from that of the average investor.

When you've got billions to play with, you may hold off on buying stocks in favour of purchasing companies outright. However, the fact that Buffett is buying neither stocks nor companies with that $122 billion could be a bad sign.

What Buffett is buying

Buffett is avoiding equity investments altogether. Last year, the Oracle loaded up on bank stocks. With over $100 billion in banks, these stocks make up about a fifth of Berkshire's holdings–with **Bank of America** his largest single bank position. Evidently, Buffett believes that American banks are well-positioned to weather the next downturn. The question is, how should Canadian investors react to this?

A similar Canadian stock

Canadian investors always have the option of buying U.S. stocks. Typically, when you open a brokerage account in Canada, you'll get both a CAD and a USD account. So if you want to directly copy Buffett, you could always buy U.S. banks like BOA.

However, if you prefer to keep your money in Canadian equities and avoid currency conversion costs, you're in luck.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a Canadian bank stock that resembles Buffett's favourite U.S. bank plays. With a large U.S. retail business, it's by far the most American of Canadian banks. It also owns a 40% stake in the U.S. brokerage **TD Ameritrade**, giving it a double dose of U.S. exposure.

The U.S. banking system is generally less regulated than the Canadian one, which means it has more potential for growth. It also makes U.S. banks riskier than Canadian banks, something investors have to keep in mind.

The 2008-2010 recession caused a major banking crisis in the U.S., from which Canadian banks were spared. TD, with its significant U.S. exposure, is less immune to this than other Canadian banks.

However, its U.S. presence also provides huge benefits. TD is only the 9th largest bank in the U.S., and it's growing like wildfire in that market. Assuming that the next recession doesn't result in a banking crisis–and Buffett seems to think it won't–TD will survive the lean years and emerge with solid growth in the years that follow.

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