Warren Buffett vs. Ray Dalio: Is Cash "Trash" or Should You Be Hoarding It?

Description

If you listen to the big-league money managers, you're probably pretty confused about the state of the stock market right now. On the one hand, you've got Ray Dalio saying things like "cash in trash," and on the other hand, you have Warren Buffett actively hoarding record amounts of cash at **Berkshire Hathaway**.

On the surface, it seems as though the raging bull, Dalio, is clashing with the cautiously-optimistic bear, Buffett. But in reality, neither cases should be treated as a sign for what to expect next.

Unless you've got a crystal ball handy, it's impossible to predict what mood Mr. Market will be in months from now, so it's important not to pay too much merit to shallow short- to intermediate-term moves made by gurus because frequently, they'll be conflicting.

The Dalio versus Buffett stance has been widely discussed in recent months, but the bullishness of Dalio and bearishness, I believe, has been blown out of proportion. Both men are brilliant, and their stances appear to be similar despite comments or actions made over the past year.

Risk-free assets: A generational lack of opportunity

Taken out of context, Dalio's "cash is trash" comments sound overly bullish, even euphoric!

In actuality, however, Dalio is more of a risk-parity (or all-weather) type of investor who's prepared for whatever the markets serve up next. Dalio thinks cash is trash, not only because he sees stocks skyrocketing into the stratosphere in 2020, but also because of how absurdly unrewarding risk-free securities have become in the era of rock bottom interest rates.

Debt securities used to compose a decent portion of an investor's portfolio without crippling one's risk/reward trade-off.

You've probably heard of the rule of thumb that states your bond percentage should be 100 minus your age. For a relatively young 40-year-old, such a practice implies that one would be overweight in bonds that may struggle to produce a decent real rate of return (after inflation). We've come to a point where the risk/reward trade-off is hurt by an overweighting in risk-free assets like bonds and cash over stocks.

That's the alarm that Dalio's been ringing.

Meanwhile, Buffett has been struggling to find significant opportunities to pay three quarters to get a dollar in the equity markets. But as you may know, he's highly against timing the markets or basing decisions like cash-hoarding on economic forecasts.

A fairly-valued market may in theory lack opportunities, and is no sign that there's a big crash that awaits.

Buffett knows that it's less than ideal to hoard record amounts of cash. But if there's a lack of deep-value high-conviction names out there, you can either maintain patience, place smaller bets on cheap lower-conviction names, look to foreign markets, or give in and buy the market. In the last quarter, Buffett took all four options.

Passive investing to the rescue

Buffett once stated that he'd "buy the **S&P 500** in a second," and in the latest quarter ended December 31, 2019, Buffett did just this with a stake in two **S&P 500** ETFs, one from Vanguard.

While the move toward a vanilla index fund is uncharacteristic for Buffett, it may suggest that Buffett is still bullish despite what he views as a lack of high-conviction opportunities in a market that may be a tad on the frothy side.

If you're like Buffett and either can't find an individual opportunity or you don't have the time to dig for opportunities, there's no shame in systematically investing an index fund.

Unlike in the U.S., however, the **TSX** has an overweighting within the energy, materials, and financial sectors, lacking in the essential nutrients for a diversified portfolio.

As such, Canadians should look to more diversified (and lower volatility) options like the **BMO Low Volatility Canadian Equity ETF** for their passive fix.

Foolish takeaway

Both Dalio and Buffett are cautiously optimistic bulls. Dalio hates cash because hoarding it comes with a high opportunity cost and substantial upside risk.

Buffett realizes this as well, but he's not in a rush to put money to work, even though that's his greatest desire at this juncture. Both men are all-weather investors who aren't timing the market with their cash (or lack thereof) positions, even though it may seem like it!

Follow in the lead of both men and you too will do well over time.

Stay hungry. Stay Foolish.

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