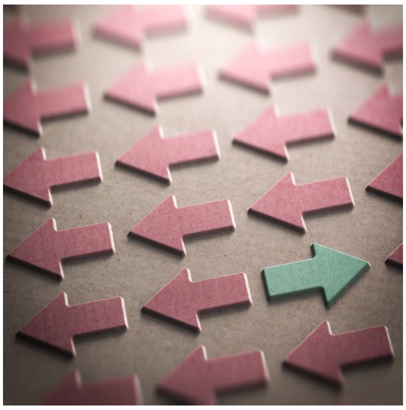

Invest Like Warren Buffett to Profit From the Looming Stock Market Crash

Description

The March 2020 stock market crash had a sharp impact on stocks and the confidence of investors. Stocks remain highly volatile, even after the April 2020 rally and substantial government economic stimulus. This has done little to allay fears of another stock market crash. Warren Buffett, long considered the world's greatest investor, is acting as if there is worse ahead.

Stock market crash ahead

It appears that the Oracle of Omaha is preparing for yet another market crash. Through **Berkshire Hathaway**, Buffett is building a war chest of cash. By the end of the first quarter 2020, Buffett's company had a record US$133 billion in cash and short-term investments.

He is raising more cash by selling stocks. Buffett offloaded the four major U.S. airlines in April for an estimated US$6 billion in cash. This means Berkshire Hathaway's cash hoard is approaching an eye-popping US$140 billion.

The April 2020 U.S. jobs numbers highlight the significant economic fallout from the coronavirus. Around 20.5 million jobs were lost and unemployment hit a worrying 14.7%, the highest rate since the Great Depression. Banking giant **JPMorgan** believes that U.S. first-quarter 2020 GDP will contract by 10% and then 25% for the second quarter.

Buffett's preferred valuation measure, the total market cap as a ratio of GDP, indicates U.S. stocks are heavily overvalued. This presages that another sharp market correction is due, potentially explaining why Buffett is actively building his cash reserves.

Buffett's strategy

The Oracle of Omaha has long held that when a market downturn is approaching, investors should bolster their cash reserves. This boosts their firepower to take advantage of sharply weaker stock prices and acquire quality businesses trading with extremely attractive valuations.

Buffett's approach to investing is encapsulated in this quote: "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

As fear engulfs stock markets during the upcoming crash, there will be plenty of opportunity to acquire companies with wide economic moats, robust balance sheets and solid businesses at significant discounts to their indicative fair value. This contrarian strategy will unlock outsized returns over the long term.

Buy this Buffett stock

One stock that fits Buffett's criteria is **Restaurant Brands International** (TSX:QSR)(NYSE:QSR). The Oracle of Omaha owns 8.4 million shares of the quick-service restaurant company, which owns three iconic brands: Tim Hortons, Burger King, and Popeyes. Restaurant Brands hasn't been as harshly handled by the market like many other stocks, having lost a modest 16% since the start of 2020.

Despite being impacted by the coronavirus pandemic like other restaurant and entertainment businesses, Restaurant Brands reported some credible first-quarter 2020 results. Drive through, takeout, and curbside delivery options have shielded Restaurant Brands from the worst of the coronavirus fallout for restaurants.

While first-quarter system-wide sales growth was 0% compared to 6.4% a year earlier, earnings only fell moderately. Total revenues of US$1.2 billion were only 3% down year over year, while EBITDA dropped 11% to US$444 million. The result was a 9% year-over-year decrease in diluted earnings per share to US$0.48.

Earnings will rebound significantly once the pandemic ends. Even as the economic toll of the virus mounts the impact on Restaurant Brands will be minimal. This is because the popularity of fast-food restaurants rises during recession and times of economic stress, as consumers become more budget conscious.

Restaurant Brands possesses solid fundamentals, which will allow it to weather the current storm and emerge in good shape. This includes finishing the first quarter with US$2.5 billion in cash.

Restaurant Brands has almost US$14 billion in long-term debt and lease liabilities. That large number is some what worrying, because it is more than six times 2019 annual EBITDA. It is only around 2.5 times annual revenue, and fast-food restaurants generate considerable cash flow, further mitigating the risks posed by such a large pile of debt.

Foolish takeaway

Stock market crashes provide the ultimate opportunity to employ Buffett's contrarian investment strategy. As fear drives investors to the exits, stock prices cascade ever lower, creating the opportunity to acquire quality businesses at less than their fair value. When the next market crash occurs, it will be a once-in-a-decade opportunity to acquire quality stocks at extremely attractive valuations.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

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1. Business Insider
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