Warren Buffett Breaks Silence About This Coronavirus-Plagued Market

Description

Warren Buffett had a sombre tone during **Berkshire Hathaway**'s 2020 annual shareholders meeting in front of an empty crowd and without his right-hand man, Charlie Munger. After over a month of radio silence, Warren Buffett finally revealed his thoughts on the coronavirus pandemic, his latest moves, and how investors should navigate through these unprecedented times.

Buffett, a man who recommends being greedy while others are fearful, was not greedy in the slightest amid the coronavirus-induced market crash. He revealed that he was a net seller of stocks for the month of April, dumping his entire stake on the airlines and admitting that he "was wrong" to invest in the industry.

Warren Buffett was still bullish on the longer-term outlook for the U.S. economy (no surprise there), and that it would eventually recover from the coronavirus crisis. However, the Oracle of Omaha warned that "the range of possibilities" for the economy remains wide amid the coronavirus crisis and that investors ought to be careful *how* they bet on the market at this juncture.

Buffett noted that markets could do *anything* after going through a few slides on what happened during the Great Depression, also acknowledging that he doesn't know what comes next.

Warren Buffett: "I don't know the consequences of shutting down the American economy"

It's clear that Warren Buffett didn't want to spark a panic with his seemingly bearish stance, comforting investors with promising longer-term prospects for the American economy while also urging caution.

But to many listeners, the main takeaway was that now is not a time to be an aggressive buyer of stocks given the risk/reward trade-off isn't looking too favourable given the massive uncertainties relating to the coronavirus.

There's really nothing to compare this coronavirus health disaster to. Unlike the 2007-08 Financial

Crisis, nobody saw it coming late last year, and nobody knows what's going to happen next given that fewer things in this world are more unpredictable than biology.

Warren Buffett: Be careful how you bet on the markets

Given that medical breakthroughs can happen at any moment (or not happen for many years), investors would be wise to stay the course and heed Buffett's warnings by being careful how they invest in the market. That means ensuring sufficient liquidity in case the markets face another cash-crunching crash and not overweighting one's portfolio in cyclical plays that depend on the coronavirus going away within the year.

As the captain of a massive ship navigating through the coronavirus typhoon, Warren Buffett is staying the course while also paying careful consideration to a worst-case scenario, which could realistically happen.

Given the long-lasting damage done to the air travel industry, a worst-case scenario would entail one or more of the airlines not making it through this typhoon in one piece.

There's no question that Warren Buffett took a significant hit on his airline share sales. But after you conduct a scenario analysis of potential outcomes from this pandemic, it's probably better to stomach the loss and salvage what's left than leave money at risk of vanishing in the airlines that now seem like an "all-or-nothing" bet.

Time to your portfolio's risk profile?

The airlines like **Air Canada** (TSX:AC) are in the blast zone of the coronavirus. And while the potential gains could be astronomical in a best-case scenario, where the coronavirus is eradicated by year-end (this scenario is starting to look very unlikely), the risk of bankruptcy is poised to increase the longer this pandemic drags on.

As such, by default, the airlines are poised to continue nosediving by default until some positive contingent event injects some positivity into the ailing industry.

The U.S.-based airlines that Buffett owned now seem uninvestible. Warren Buffett's not interested in "all-or-nothing" type bets, which is a huge reason why he decided to bail on an industry that he had shunned for decades prior.

Air Canada, which has a far better liquidity position that its peers south of the border, looks to be a best-in-class operator. But it's still not immune from a worst-case scenario that could see investors losing over 90% of their investment.

As such, investors would be wise to trim away at such speculative names if they're looking to batten down the hatches for another doozy.

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Date
2025/07/07
Date Created
2020/05/13
Author
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