



Here's My Concern With Warren Buffett and the Market Rally

Description

Over the last few months, stock markets have gone on a major rally. Since the bottom in March, **TSX** stocks are now up by a whopping 37%.

It makes sense after the rapid selloff in early March that stocks would make a comeback. After all, a lot of companies — including almost every big, defensive blue chip — were oversold, as fear ran rampant through financial markets.

However, after recovering back to near pre-pandemic levels with a considerable amount of uncertainty about the economy and pandemic, a rally this fast seems a bit optimistic.

Furthermore, the rise of interest and investing in some of the highest-risk stocks signals that a lot of speculating is going on in markets, which could also be a reason markets have rallied so rapidly.

What's most concerning about the market rally?

In my view, the most concerning thing about the market is the level of confidence that investors have seemed to have over the last few months.

Initially, the market rally made sense. Stocks like [utilities](#) and consumer staples that could easily weather a recession were bid up. However, now even airlines such as **Air Canada** have seen a volatile few months.

There are two problems with confidence levels this high. First, it tends to push stocks higher, even if there isn't any evidence or certainty to support the risk-off investments.

Second, as markets continue to rise, the confidence in investors who were buying before can continue to snowball as they see more gains, tempting them to invest even more when stocks are at or near all-time highs.

When people question Buffett...

It's even more worrisome to me when I read articles about Warren Buffett losing his edge because he sold airline stocks, and they have rebounded.

Buffett is an investor who buys companies for the long run. He is not interested in whether a stock or the market is going to rally temporarily in the next three months.

Furthermore, Buffett mentioned when he sold the stocks that it was because he doesn't believe that capacity will return to the industry for years, given the complications of coronavirus.

I have to agree with him on that. Air travel is one of the highest-risk industries for catching the coronavirus. And international travel is a nightmare for countries to try and keep the virus contained within their borders.

This is a spot-on assessment of the industry, and in my view, Buffett was right to sell the stocks. There was no way for him to know that speculative investors would bid up airline stocks. Furthermore, it's easy for people to say it was a mistake by Buffett in hindsight after the market has rallied.

[Warren Buffett](#) has built his track record over more than half a decade of investing. To say he has lost his edge after a three-month stint where stocks he sold were irrationally bid up shows the market is way too overconfident at the moment.

How to prepare like Buffett for the real market rally

At this point, with the market extremely overbought after the rally, it seems that a second crash is imminent.

I would advise investors that this is the time to research all the best companies. It's especially important that they have business models that will be able to survive a recession as well as the coronavirus pandemic.

You should also be building a fair cash position in anticipation of buying. Buffett is currently sitting on a whopping \$137 billion of cash ready to invest.

By having cash ready to invest, you will be ready when the market does crash. You'll know what stocks you want to buy; plus, you'll know what their value is and when to buy as they are crashing. And, most importantly, you'll have the cash to make the purchases.

Bottom line

It's easy to get caught up in headlines and the euphoria of markets. It's especially easy when they've rallied by nearly 40% in just three months.

However, investors should remain aware of the major risks and uncertainty that still exist. So, be

patient, do your research, and have cash ready.

If you do this, you'll set yourself up tremendously for the next market crash and rally.

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