Warren Buffett: Why He’s Been Crushed by COVID-19

Description

2020 hasn’t been the best year for Warren Buffett. After selling its entire position in airline stocks, **Berkshire Hathaway** lost $50 billion in the first quarter — one of the worst in the company’s history. Buffett’s Q1 loss has led to Berkshire’s stock underperforming the S&P 500 year to date.

Indeed, Buffett’s moves in 2020 have left some long-time fans scratching their heads. Buffett isn’t known for selling stocks, even when they’re way down, so his airline plays were confusing to many. His **Delta** sale in particular confused a lot of people, as he had doubled down on the stock just months before selling it.

In this environment, Buffett and Berkshire are clearly taking a beating.

The question is, *why?* In the past, Buffett was known for buying the dip and using downturns as opportunities to buy stocks cheap. Now, it seems, he’s taking his losses on the chin. It’s a marked departure from historical norms, raising the question of whether the “Oracle” has lost his touch.

Heavy exposure to battered sectors

A big part of Buffett’s underperformance in 2020 comes from the sectors he was invested in prior to the crash. As previously mentioned, he held a lot of airline stocks, which he later sold. He also held a lot of banks, which he’s still holding onto.

Both of these sectors have been beaten down badly. Airlines, in particular, are really hurting. If you look at a stock like **Air Canada** (TSX:AC), for example, it’s just getting beaten down day after day. As of this writing, the stock was down nearly 64% for the year. Reasons for the slide include cancelled flights, low demand for travel, a disastrous $1.05 billion Q1 loss, and a dilutive equity issue. All of these factors contributed to terrible first and second quarters for Air Canada. The same factors apply to the U.S. airlines Buffett sold at a loss.

Not enough tech

A second reason for Buffett's underperformance this year is a lack of tech investments. While Buffett is well known for his **Apple** investment and just recently got into **Amazon,** the "Oracle" just doesn't have that much tech in his portfolio.

That's a problem because the NASDAQ — with its heavy weighting in tech — is driving most of the gains this year. After solid results from major tech companies in Q1, the NASDAQ quickly walked off the COVID-19 market crash and reached new highs. The S&P 500, by contrast, is still down for the year.

Foolish takeaway

For years, investors have looked to Warren Buffett for inspiration, seeing him as a voice of calm amid market turbulence. Until recently, that line of thinking paid off. Even with his underperformance in recent years, Buffett's long-term average is still 20% — double that of the S&P 500.

Now, however, Buffett's limitations are starting to show. With tech stocks like **Shopify** making up ever greater percentages of equity market returns, it's hard to outperform when you avoid them. It looks like Buffett is paying the price for doing so.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2020/06/23
Author
andrewbutton