Warren Buffett Plays it Safe Again, and You Should, Too!

Description

This weekend, Warren Buffett-led **Berkshire Hathaway** announced its biggest deal in over five years. It announced a purchase of Virginia, U.S.-based **Dominion Energy's** natural gas assets at around US$10 billion, including debt.

Warren Buffett and the cash hoard

Warren Buffett has been on the lookout for an "elephant-sized transaction" for a while. He did not act even during the epic market crash in March 2020 amid the pandemic, which ballooned the company's cash hoard to a US$137 billion.

After a strong recovery in global equities in the last three months, market participants might argue that Warrant Buffett made a mistake staying on the sidelines. Interestingly, the recent deal, which includes more than 12,390 km of natural gas transmission lines and 900 billion cubic feet of gas storage, is not as glamorous as many would have anticipated.

However, the deal underlines that the most celebrated investor of our times is still playing it safe and chasing low-risk assets.

Warren Buffett, who will turn 90 next month, is a devoted long-term investor who gives a lot of importance to valuation. His status quo during the recent crash — when stocks lost about 30-50% of their value — indicates that he might be expecting much bigger weakness going forward.

Berkshire Hathaway's cash hoard will also likely act as a cushion to Buffett's successor if markets take an ugly turn.

Equities rallying amid the uncertainty

Notably, the economic recovery amid the pandemic has been mixed. But global equities have been soaring higher. Canadian broader markets have continued its upward climb, even when the economy plunged into a recession in May.

Several factors could jeopardize the current equity market gains. The recent acceleration of coronavirus cases bodes serious trouble. While Texas and Florida reversed their lockdown-easing orders, the trend spreading could notably hamper the sentiment.

Also, quite a few pharma companies are currently working on a vaccine to cure the virus, but none have been successful so far. Thus, fear and uncertainty might continue to dominate consumer behaviour and business activities.

Investors should follow Warren Buffett and focus on safety

In this situation, investors can play safe with low-risk investments, just like Warren Buffett did. The well-known value investor has huge investments in utilities, as they generate stable cash flows, even during the economic downturns.

Canadian investors have some attractive options in that domain. Canada's biggest utility, **Fortis** (TSX:FTS)(NYSE:FTS), is one such stock investors can consider. The utility generates almost all of its profits from regulated operations. These regulated operations facilitate stable and predictable earnings, which ultimately enable stable dividends.

It is currently trading at a dividend yield close to 4%, higher than TSX stocks at large. Fortis aims to increase shareholder payouts by 6% per year for the foreseeable future. This certainty and visibility are highly important for investors in the current market scenario.

Apart from utilities, investors can also consider defensive stocks of telecom companies like **Rogers Communications**. Their stable earnings and less-volatile stock movements generally outperform during the broader market volatility.

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