



Warren Buffett: Should You Brace for a Market Crash?

Description

In the middle of May, I'd discussed whether investors should follow the old investing adage, "[sell in May and go away.](#)" The combination of ballooning stock valuations and shaky economic data was enough to make certain experts very scared. Fast forward to the middle of July, and these factors are still present. Today, I want to look at what Warren Buffett and some of his peers are saying about a potential market crash.

Is Warren Buffett predicting a market crash?

Warren Buffett's principles of value investing are worth considering in this red-hot market. The Relative Strength Index (RSI) is one indicator that illustrates whether an equity is in oversold or overbought territory. Last week, top stocks like **Shopify**, **Kinaxis**, **Constellation Software**, and **Spin Master** all came into Friday at technically overbought levels. The S&P/TSX Composite Index itself last had an RSI of 61, pushing it closer to this key sell signal.

Fortunately, there are still some stocks on the TSX that are trading in discount territory. Warren Buffett made a big bet on one sector this month that may inform the way investors behave this summer.

What is Buffett betting on this summer?

Earlier this month, **Berkshire Hathaway** [announced a \\$9.7 billion deal](#) for **Dominion Energy**, a producer and transporter of electricity and natural gas. Energy stocks were pummeled early on during the market correction in the late winter and early spring. One of Buffett's top Canadian holdings still looks like a potential buy-low opportunity right now.

Warren Buffett added to his holdings in **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) in recent years. However, this top energy stock has failed to gain momentum after a sharp dip in 2020. Shares of Suncor have dropped 46% in 2020 as of early afternoon trading on July 13. The company slipped out of profitability in Q1 2020, but it still possesses a favourable price-to-book (P/B) value of 0.8.

Suncor last reduced its quarterly dividend payout to \$0.21 per share. This represents a 3.8% yield. Suncor is reeling after a rough first half to this year, but this Canadian energy giant looks undervalued right now.

How you can prepare for a market crash

Investors who prefer to go on the defensive right now also have some solid options. Utilities have fared very well in 2020. Falling interest rates have continued to drive income investors into the arms of utility stocks. These equities offer stability and typically boast yields that outpace inflation. Fixed-income vehicles that fit this description are harder to come by in the low interest rate environment. Warren Buffett's bet on Dominion also suggests that the legendary investor is looking for utility exposure.

Emera is a Nova Scotia-based utility. Its shares have dropped 1.4% in 2020 so far. However, the stock is up 2.7% year over year. In its Q1 2020 results, the company reported adjusted net income of \$193 million, or \$0.79 per share, compared to \$224 million, or \$0.95 per share, in the prior year. However, cash flow still increased by \$84 million to \$502 million.

The company last approved a quarterly dividend of \$0.6125 per share. This represents a solid 4.5% yield. Shares of Emera also boast a favourable price-to-earnings ratio of 15 and a P/B value of 1.5.

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