



Warren Buffett: Is Danger Still Lurking in the Stock Market?

Description

Warren Buffett just missed out on one of the best short-term [opportunities](#) in recent memory, having sat on his hands when the stock market fell off a cliff back in February and March. Buffett ditched all his U.S. airline stocks and sounded pretty sombre during **Berkshire Hathaway's** 2020 annual shareholders meeting, bringing up slides of what happened during the Great Depression.

To investors, it seemed like Warren Buffett was implicitly warning that there was danger ahead, as the world went into lockdown, with the word *depression* being thrown around by the talking heads on TV.

The Oracle of Omaha acknowledged the wide range of possibilities with the [COVID-19 pandemic](#) but still urged investors to continue betting on America, despite his reluctance to back up the truck with Berkshire's growing cash hoard in the March-April depths. Buffett acknowledged he didn't know what would happen next but noted that investors should "be careful on *how*" they bet on America.

Warren Buffett may have missed a generational opportunity, but he hasn't "lost his edge"

Berkshire has a cash-hoarding problem, and the 2020 market crash was a perfect opportunity to put it to work before the unprecedented Fed-induced V-shaped bounce.

Many Warren Buffett fans likely thought that Uncle Warren was buying stocks hand over fist in the first and second quarters, so it came as a shock when it was discovered that Buffett was a net seller of stocks immediately after the worst of the crash had already hit. Buffett's lack of buying activity was likely a major reason why Bill Ackman, who profited profoundly from the February-March sell-off, threw in the towel with his position in Berkshire.

Fast forward to today, and Buffett has begun to catch up, with the purchase of nearly US\$10 billion worth of natural gas assets, a few helpings to shares of the still battered **Bank of America**, and over US\$5 billion in share repurchases.

Although it seems like Warren Buffett is starting to get bullish again now that the “Fed put” is in place, it’s worth noting that Buffett’s latest bets are still modest relative to Berkshire’s cash position, which grew to a whopping US\$140 billion at the end of the last quarter.

Moreover, Buffett’s latest investments are in areas of the market that are still severely bruised and have yet to bounce back as abruptly as the broader market indices like the **S&P 500** or the tech-heavy **NASDAQ 100**. So, although Buffett showed up late to the party, it’s still far too early to conclude that he “missed out” on the coronavirus crash, given we’re not out of the woods yet.

Playing this pandemic-plagued market prudently

There’s no question that it’s tougher to value certain stocks without clarity on how and when the pandemic will end. So, instead of taking chances on all-or-nothing speculative bets like the airlines like **Air Canada**, he’s opted to look to areas of the market that have a good chance of bouncing back, without running the risk of having his investment fall to zero.

Even if this pandemic drags on for another year or two, Warren Buffett’s latest deep-value investments will likely do well over the next decade and beyond, regardless of what the pandemic endgame will be. The natural gas industry is near a cyclical lowpoint, and the banks haven’t been this stressed since the Financial Crisis. They’re historically undervalued, but, most importantly, they don’t depend on the timely arrival of a vaccine for their survival.

Should things worsen, it’s unlikely that he’ll realize a zero with his latest bets. I can’t say the same for airlines like Air Canada, though, which will be fighting for their lives, as cash burn withers away liquidity throughout this pandemic.

Is Warren Buffett still worried about danger ahead?

Not necessarily, but he’s prepared for *anything*.

His powder is still very dry, and his latest investments are unlikely to fall to zero, even if this pandemic were to worsen, implode the markets, and drive many airlines to the brink.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Date

2025/08/03

Date Created

2020/08/11

Author

joefrenette

default watermark

default watermark