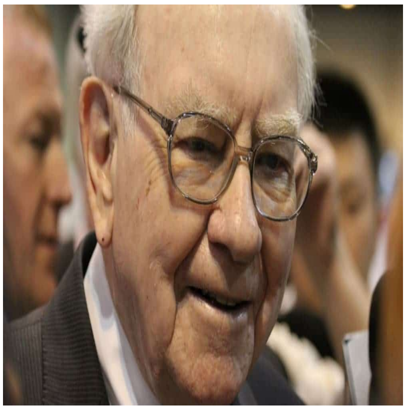

Warren Buffett: The Calm Before the Storm?

Description

Warren Buffett has generated billions of dollars over the years by investing at the right time in quality companies. His financial wisdom has rarely been surpassed making him probably the most successful investor of all-time.

Buffett's company **Berkshire Hathaway** generated annual returns of 20.3% in the last 55 years. This would have turned a $1,000 investment into $27 million, easily beating broader market returns over six decades.

Warren Buffett had famously said, "Be fearful when others are greedy and be greedy when others are fearful" which means that you need to buy stocks amid a market sell-off and be cautious when they are trading near record highs.

So, when equity markets crashed over 35% in less than a month in early 2020, you would have expected Warren Buffett to go bottom fishing. Instead, the Oracle of Omaha offloaded airline stocks and completely exited this capital-intensive sector.

In the second quarter, Berkshire received $15.7 billion in cash proceeds from selling equity positions in airlines and possibly **Goldman Sachs**. In the last two quarters, Berkshire reduced its position in Goldman by 90% and may very well have sold off the remaining stake in this banking giant.

Is Warren Buffett waiting for another market crash?

Berkshire Hathaway's cash position at the end of Q2 stands at an all-time high of $146.6 billion, up from $137.2 billion in Q1. It means the financial behemoth is sitting on one of the largest cash piles in the investment space which might make investors wary.

Berkshire's rising cash balance seems ominous while Buffett's unwillingness to deploy cash in the current equity market is a red-flag. One reason for this may be because the investment mogul believes the markets are overvalued and will trade at lower valuations sooner than later.

If Warren Buffett believes the worse is yet to come, he may not be wrong. Unemployment rates are rising and the global travel, hospitality, retail, energy, and tourism sectors are in complete disarray. Consumer spending has dropped as malls and entertainment avenues have been largely shut down, dragging global gross domestic products significantly lower in 2020.

The Warren Buffett indicator, the market cap to GDP ratio suggests equity markets are significantly overvalued. This ratio touched a multi-year high of 175% in the last week, indicating that equity markets south of the border are overvalued by at least 75%.

Further, the world continues to battle the dreaded pandemic and while economies are reopening there is a grave risk of a second COVID-19 wave impacting businesses and individuals. So where do you invest your money in such a dire and uncertain market?

Is Buffett bullish on diversified energy companies?

In July, Warren Buffett spent US$9.7 billion to buy **Dominion Energy's** natural gas transmission and storage assets. If the Oracle of Omaha is bullish on energy companies that are not exposed to volatile commodity prices, you can look to buy stocks such as **Enbridge** (TSX:ENB)(NYSE:ENB) right now. Enbridge is a Canada-based energy infrastructure giant with a diversified base of assets.

The energy sector witnessed its worst quarter in several decades due to a significant decline in oil prices. However, in Q2, Enbridge's EBITDA rose 3.2% to US$3.31 billion while distributable cash flow was up 5.5% at US$2.43 billion.

Enbridge is largely recession-proof, as it generates over 90% of EBITDA from fee-based contracts. This helped the company reaffirm its guidance for distributable cash flow per share of between $4.5 and $4.8, compared to annual dividends of $3.24 per share.

Enbridge has increased its dividends at an annual rate of 11% since 1995, making it one of the top bets for income investors given its tasty yield of 7.2%.

The Foolish takeaway

The market is all ears when Warren Buffet speaks. But the Oracle of Omaha has been quiet for some time now. Further, it might seem that the current market recovery is driven more by optimism rather than fundamentals.

As it is impossible to time the market, the only thing you can do now is to place your bets on quality stocks with strong balance sheets.

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