ALERT: Warren Buffett Bought Barrick Gold Stock — Should You?

**Description**

The outstanding success of gold stocks during the pandemic continues this week, as **Barrick Gold** (TSX:ABX)(NYSE:GOLD) soars +10%. The rocketing share price can be attributed to investment guru Warren Buffett and his famous holding company **Berkshire Hathaway**. But is Barrick stock a good buy for the general investor? And what might this latest development signal for low-risk portfolio holders? Let's take a look.



## A rocketing blue-chip gold stock

Gold has seen a record bull run of later — and it looks set to continue. Warren Buffett's Berkshire Hathaway has been rebalancing its exposure to risk, slashing bank shares and packing the yellow metal. Berkshire announced Friday that it has sold off its investment in **Goldman Sachs** while reducing its stakes in **JPMorgan Chase** and **Wells Fargo**.

Of particular note to Canadians should be Berkshire's new Barrick Gold position. It's a sizeable stake of 20.9 million shares, totaling more than half-a-billion dollars. If ever there were a signal that risk in the markets is ratcheting, this is it. But Barrick's rally does two things. First, it makes a slightly too expensive stock even more expensive. Second, it undermines faith in the economy.

Warren Buffett's bullishness is sure to strike a chord with TSX investors. I highlighted Barrick's high valuation last week but noted that the miner is "potentially a strong play for upside should higher gold prices prove long-lasting. New investors long on gold could consider building gradually on weakness." Investors should note that Barrick's share price has been climbing between Berkshire's investment and now.

## A warning has been sounded on the economy

However, Canadians should also heed warnings about banks stocks. Berkshire's derisking moves saw the holding company shrink its exposure to moneylenders. Strongly correlated with the economy, dangerously exposed to lower oil, and hamstrung by toxic debt, banks could sour further this year. As such, a reduction in banking exposure and migration to safe havens sets an overall bearish tone on economic recovery.

There is a lot to unpack here. While the Big Five banks are a cornerstone of Canadian dividend investing, they have not performed strongly during the pandemic. Some Canadian investors buying for the long term may wish to disregard the near- and mid-term risk to banks, though, and continue to go long on the strongest moneylenders.

However, if an investor has narrower financial horizons, or possesses a low tolerance for risk, then a portfolio makeover may be prudent at this time. As uncertainty increases, TSX shareholders might want to make like Warren Buffett and trim some risk from a portfolio.

Buying into one of the world's largest gold mining companies can add some stability to a TSX stock portfolio. This holds especially true for a portfolio heavily weighted by Canada's largest economic powerhouses, namely energy and banking, which have been kneecapped during the pandemic by lower energy consumption and dour consumer sentiment. Gold just might be the perfect antidote. Warren Buffett certainly seems to think so.

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