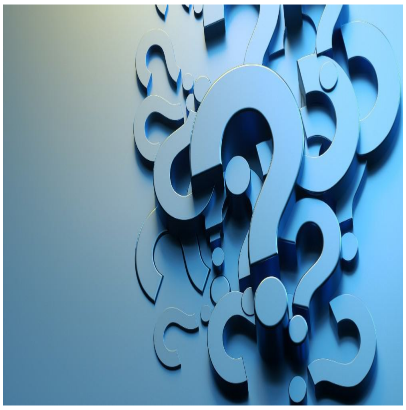

Warren Buffett Goes for GOLD: Warning of an Imminent Stock Market Crash?

Description

Warren Buffett was never a big fan of gold. He slammed the shiny metal, calling it an unproductive asset, which, unlike other assets like farms, generates nothing for investors over time. So, it may have come as a surprise when the man announced his stake in Canadian gold miners **Barrick Gold** (TSX:ABX)(NYSE:GOLD), with gold prices well above their mid-cycle levels.

If you're confused over Warren Buffett's latest move, which goes against the strong comments he made in the past, you're not alone.

In recent years, Buffett has demonstrated that he's willing to adapt with the times, even going back on comments he's made previously. The current pandemic-plagued market environment likely has much to do with his decision to ditch his prior stance on gold with a small (and possibly growing) stake in Barrick Gold, a company I previously termed the gold standard when it came to gold miners.

Gold is a great inflation hedge that provides any portfolio with a lower correlation to the broader markets. Whenever the market crashes, gold can help buoy a portfolio. Despite the benefits of incorporating gold into a portfolio, Buffett and his followers have mostly steered clear of the asset over the decades because equities have outshined gold over an extremely long-term horizon, a trend that will likely continue for decades to come, even with the coronavirus crisis considered.

When volatility prevails, and you're overexposed to equities, it makes sense to have a bit of gold in your portfolio as a hedge against inflation and a market crash. Some speculators who think the stock market will crash violently may also overweight their portfolios with precious metal miners.

And while Buffett's recent stake in Barrick may indicate that he believes a catastrophic market meltdown is imminent, I'd say his newfound love for gold is a less remarkable move that's just a sign of the times.

Is Warren Buffett’s gold stake a move to prepare for a market crash?

Probably not.

Yes, there’s excessive volatility and a risk of a considerable pullback if the COVID-19 pandemic gets out of control again. That’s a significant reason why you’d want to own gold. But I don’t think Buffett’s 180-degree stance reversal on gold is a sign that he’s looking to batten down the hatches for the next market crash. I believe Buffett’s eyebrow-raising gold stake is just a response to this era of rock-bottom interest rates.

Warren Buffett is swimming in cash. And with interest rates likely sticking around near zero (or even negative) levels for another few years, the insidious effects of inflation are a growing threat to **Berkshire Hathaway**‘s growing mountain of cash. And with the unprecedented money-printing in response to the COVID-19 pandemic, the threat of inflation has arguably not been this high in a ridiculously long time.

Warren Buffett may now dislike bonds more than gold

In this age of near-zero interest rates and the threat of rising inflation, it’s making less sense to hold bonds, even the short duration ones. As you may know, Warren Buffett also isn’t a fan of bonds, especially those of longer-term duration. With interest rates near zero, Buffett’s distaste for risk-free fixed-income securities has likely vastly exceeded that of his distaste for gold.

Just have a look at the trajectory of Berkshire’s asset allocation. As a percentage of overall assets, fixed-maturity securities have been on the downtrend over the years, while cash and cash equivalents have been on the uptrend. Buffett has a severe cash problem that could leave him vulnerable to a surge in inflation.

Foolish takeaway

There’s never been a worse time to be a saver. Gold may be an asset outshined by equities over the long haul. Still, given the rock-bottom interest rate environment, the growing threat of inflation, and lower correlation to the stock market, gold is deserving of a spot in any portfolio.

Sure, gold is an unproductive asset. However, as I’ve mentioned in prior pieces, Barrick Gold stock sports a compelling 1.3% dividend yield (it’s fallen to 1.1% following the latest Warren Buffett-induced pop in ABX stock), making the gold miner far more productive versus cash or bonds, with the added benefit of being a hedge against inflation.

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