Warren Buffett: Prepared for an Epic Stock Market Crash

Description

It's been a few days now since Warren Buffett filed his 13F report, publishing his portfolio moves for the recent quarter. The biggest move Buffett made was to bet on gold. That's what the media and analysts seemed to focus on. However, I noticed that the rest of Buffett's moves serve as a red flag for the stock market.

In other words, the world's most famous and successful investor is betting on a stock market crash. Here's what that means for your portfolio.

Buffett's actions

Over the three months to June 2020, Warren Buffett made some big moves. Some were deeply uncharacteristic.

For example, the notoriously long-term investor rarely ever sells his entire stake in a business altogether. In fact, he once said that he holds onto his losing investments for longer than average. This is why it was a surprise that Buffett sold 100% of his stake in a number of high-profile investments.

The biggest group Buffett exited was the airlines. 100% of all four airline stocks he owned have now been eliminated entirely. However, it wasn't just airlines getting the cut. He also sold his entire stake from Canadian fast food giant **Restaurant Brands**.

Unlike airlines, Restaurant Brands stock has performed fairly well this year. The stock has rebounded sharply from its March lows. In fact, it is down only 13.8% year to date. So, the fact that Buffett sold indicates that he sees more trouble and perhaps another lockdown ahead, which could impact the company's finances long term.

Similarly, he also reduced his stakes, by double-digit percentages, in most banks. Banks have always been the value investor's favourite industry. Stepping back from the financial giants, again, indicates more economic trouble ahead.

Barrick Gold stock

Perhaps the biggest red flag in the recent filing was Warren Buffett's bet on gold — or, to be precise, his US$550 million (CA$723 million) investment in **Barrick Gold** (TSX:ABX)(NYSE:GOLD).

In many ways, Barrick Gold fits the Oracle's criteria for a great investment. The company has a competitive advantage due to its size. It's the second-largest miner in the world. It's also trading at a healthy valuation. The stock price is at 12 times earnings per share and three times book value.

Perhaps the most attractive aspect of the business is its dividends. Barrick's dividend yield is just 1% at the moment, but the company conserves the majority of the cash it makes from mining. This year, the dividend-payout ratio was just 9.1%, which means the dividend could be boosted tremendously without much risk to the balance sheet.

Finally, the stock is correlated with the market price of gold. Gold is seen as a safe-haven investment that rises alongside volatility and inflation. Warren Buffett has been critical of gold as an investment for years. He has called it an "unproductive asset." So, the fact that Buffett has added this exposure now indicates he's more worried about inflation and volatility than ever before.

Bottom line

Warren Buffett's stunning retreat from the stock market and recent bet on gold is a red flag for investors. The economy and stock market could be facing an imminent plunge.

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