



## Market Crash 2020: Warren Buffett Is Ready to Pump In \$146.6 Billion

### Description

When it comes to value investing, few have been as successful as Warren Buffett. The Oracle of Omaha has increased his wealth multifold over the last six decades by identifying undervalued stocks and keeping a long-term horizon.

This investment strategy has helped the Buffett-owned **Berkshire Hathaway** to generate impressive [annual returns of](#) 20.3% in the last 55 years. So, you would have expected Warren Buffett to go bargain hunting when the markets crashed in early 2020.

However, Buffett was, in fact, a net seller of equities this year and exited the capital-intensive airline sector. This meant Berkshire's cash balance rose from \$128 billion at the end of 2019 to \$146.6 billion at the end of Q2 of 2020.

So, why is the investment behemoth sitting on one of the largest cash piles in the investment space? Berkshire's cash balance is at an all-time high, and this seems ominous given Buffett's unwillingness to deploy cash when markets were pummeled in March.

While the S&P 500 fell close to 36%, its V-shaped recovery has surprised investors. The S&P 500 has recovered losses and the index touched an all-time high on August 18, despite concerns over lower consumer spending and high unemployment rates.

The market cap-to-GDP ratio, also known as the Warren Buffett indicator, suggests that the equity markets are significantly overvalued. This ratio stands at an astonishing 179%, which means the U.S. markets are trading at a premium of at least 79% and need to correct significantly.

There is too much uncertainty surrounding global economies and the market recovery makes little sense. It is based more on investor optimism rather than fundamentals, and you can see why Warren Buffett is taking a cautious approach to investing right now.

## This Warren Buffett stock has huge upside potential

Warren Buffett has some exposure to the Canadian market. Berkshire Hathaway owns 1.3% or 19.2 million shares of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) worth US\$322 million. Suncor Energy has grossly underperformed the broader markets and has declined close to 60% since July 2018.

This suggests that Suncor stock is currently trading at a market cap of \$33.75 billion. Given its sales forecast of \$26.6 billion in 2020, its price-to-sales multiple of 1.3 is extremely attractive. Analysts tracking the stock expect sales to fall by 32% year over year in 2020, while an earnings decline is forecast at a staggering 146% for this year.

However, these declines are priced into the stock price and Suncor's sales are forecast to rise by 21% to \$32.14 billion in 2021. Comparatively, its earnings per share might reach \$0.7 in 2021, up from - \$1.28 in 2020.

Suncor is a diversified energy player and is well poised to gain momentum if oil prices move higher. The company [reduced its dividend payout](#) by 55% earlier this year to improve liquidity. Despite the dividend cut, Suncor still has a forward yield of 3.8% and we know why the company is Buffett's way to play Canada's oil patch.

Suncor has been under tremendous pressure due to falling oil prices coupled with tepid demand due to the COVID-19 pandemic. However, analysts also have a 12-month average target price of \$31.87 for Suncor, which is 44% above the current market price, making it an attractive bet in a beaten-down sector.

## CATEGORY

1. Coronavirus
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2. TSX:SU (Suncor Energy Inc.)

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**Date**

2025/09/06

**Date Created**

2020/08/20

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