



## Warren Buffett: Is the Worst Yet to Come?

### Description

Some Warren Buffett followers are in a bit of a panic over the latest moves by Warren Buffett. The man is trimming his bank exposure while scooping up shares of gold miners and grocers.

### Warren Buffett goes for GOLD

**Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD), [the gold standard](#) for precious metal miners, was Buffett's investment of choice for getting into the gold world, after many years of slamming the shiny metal as an investment. Gold, on its own, may offer a hedge against the rising threat of inflation and excess market volatility. But it's still an unproductive asset that produces nothing over time.

What separates Barrick from the batch, though, is its 1%-yielding dividend. Now, a 1% yield may be nothing to write home about, but given most other gold miners are unable to support and grow such a payout, it becomes more apparent that Barrick's dividend is more of a bonus than the main attraction into shares. Regardless, I've noted in prior pieces that Barrick Gold stock was a buy because of its attractive well-covered dividend.

A safe dividend and an extremely low correlation to the broader markets. At a time like this, there's not much you could ask for as gold prices continue surging above the US\$2,000 mark. Heck, some pundits in the belief that the gold rally will continue (potentially to US\$3,000) through this pandemic.

If such a scenario happens, gold is not only a great volatility and inflation hedge, or "productive" dividend payer, but it's also a great way to punch your ticket to outsized gains over the medium term.

While I'd be reluctant to recommend a stock after having [more than doubled](#) over a matter of months, I'm more than willing to make an exception for shares of Barrick Gold. Warren Buffett's big vote of confidence in the name is just another reason to nibble on shares at these heights if you're one of many Buffett fans who've steered clear of the unproductive asset over the years.

## The gold standard as far as gold miners are concerned

Barrick is one of the best operators in the gold space. The company also boasts a geographically diversified portfolio of mining assets, making the name worthy of a premium to its peer group. That said, gold prices are a country mile above their mid-cycle price of around US\$1,200. Come the next down cycle, Barrick stock could easily get clobbered and investors could lose a great deal.

Given that these are unprecedented times with an equally unprecedented magnitude of uncertainty, though, an unprecedented move in gold prices above and beyond US\$2,000 wouldn't at all be out of the ordinary, especially when you consider the threat of inflation and the rise in demand for assets to combat a potential spike.

When you consider the inflation risk, I'd argue that the longer-term risk of downside in gold prices far lower in comparison.

Whether Buffett will be adding to his stake in Barrick is anybody's guess. But one thing is for sure; he's preparing his defences in case this horrific pandemic brings forth a one-two punch of market volatility and inflation.

## So is Warren Buffett thinking that the worst yet to come with the markets?

Given Buffett's recent moves, one would think so. He's buying gold miners and grocers. He's hoarding cash. And he's been a significant seller of airline stocks and more recently, banks.

They all point to a bearish Buffett. However, when you consider Buffett hasn't *drastically* reduced his equity exposure (like before the dot-com bust), I'd say the Oracle of Omaha is just de-risking the portfolio given the wide range of potential outcomes with this pandemic.

The coronavirus could still propel us into a depression in the worst-case scenario. Is it likely? Probably not. But that doesn't mean you shouldn't be prepared for such a bear scenario.

### CATEGORY

1. Coronavirus
2. Dividend Stocks

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