



Warren Buffett Is Preparing for Another Stock Market Crash

Description

How does the world's best investor prepare for a stock market crash? Well, it seems like we're about to find out. Warren Buffett has been making aggressive moves in recent months that could indicate that he's pessimistic about the outlook for stocks.

Here's what the oracle of Omaha is doing with his humongous portfolio and what you could do to prepare as well.

Stock market crash indicators

Warren Buffett's favourite way to measure the value of the stock market is an indicator that is [flashing red right now](#). Buffett measures the total market capitalization of a stock market to the total gross domestic product of the country. If the former is higher than the latter, stocks are due for a tumble.

At the moment, Canada's stock market-to-GDP ratio is 110% — the highest it's been in 30 months. The last time stocks were so richly valued, they fell along with the oil price in 2015-16.

Now, the problems are deeper and much more global. There's no way to know how long the pandemic will linger. There's also growing worries that the economy could take longer-than-expected to fully recover.

Amid these growing concerns, here's how Warren Buffett has been positioning his portfolio.

Selling Banks

Warren Buffett once said that banks were his favourite investment. He also said he would bet on **Wells Fargo** if he could only pick one stock to pour all his money into. Over the past three months, however, he has cut his stake in Wells as well as his other banks.

Buffett sold more than a quarter (26.5%) of his Wells Fargo stake in the third quarter of 2020. Similarly, he reduced his stakes in **JP Morgan** and several other financial institutions.

The prospect of lower interest rates squeezing profit margins and an expected spike in consumer and corporate defaults could be the underlying reason for this move.

Reducing risk

Buffett also cut his portfolio's risk profile considerably. He eliminated all his airline holdings and his stake in **Restaurant Brands**. A complete exit from any position is unusual for Buffett, so these moves are particularly intriguing.

Buying Gold

Perhaps the most noteworthy move Buffett made was to add a Canadian gold miner to his portfolio. **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) is the most unexpected move the Oracle has made in decades.

Previously, he called gold a wasted investment and said there were much more productive places for him to deploy cash. Now that he has bet half a billion dollars on Barrick Gold, it suggests he's probably changed his mind.

This move could also indicate that Buffett doesn't see any other alternative for his cash. Stocks and bonds are overvalued. Meanwhile, cash itself could lose value as central banks print record amounts of currency. The combination of economic upheaval, along with inflation and overvalued stocks could have pushed Buffett to gold as a safe haven.

Barrick Gold stock has surged this year, as the economy collapsed. Now, the stock is trading 60% higher than at the start of the year. It could be a safe haven asset for regular investors like us as well.

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