Warren Buffett: Is a Devastating Market Crash Coming?

Description

Warren Buffett's latest portfolio moves seem startling. The man offloaded his airline stocks, trimmed many of his bank stocks, and loaded up on shares of gold miners and grocers. Indeed, it seems as though the man is gearing up for a potentially severe recession that may be heavily discounted by investors.

Sure, many big-league economists foresee a big economic rebound in 2021. But given uncertainties relating to the unpredictable beast that is the coronavirus, there's a real chance that the coming economic recovery could be far more muted.

Why is Warren Buffett being so cautious?

Valuations, like mid-term economic forecasts, are subject to a tonne of uncertainty. Nobody knows what the ultimate endgame of this pandemic will be. And in response to such unprecedented uncertainties, Buffett has opted to play it safe by mostly sitting on his hands amid the February-March sell-off and picking his spots carefully in the months that ensued.

Yes, Warren Buffett has been proven wrong with his overly cautious approach this year. He missed out on one of the best buying opportunities of all time and has garnered a considerable number of critics in the process who believe the man has lost his market-beating edge.

While Buffett's cautious approach may seem like he's preparing for another market crash, I think investors would be best served by taking the Oracle of Omaha's latest moves with a grain of salt if you find that your portfolio is already sufficiently diversified with COVID-19 hedges in place. The economy doesn't match the stock market right now, and while a drastic sell-off is plausible, investors need to remember that they have a friend in the U.S. Fed, which has shown it's more than willing to step in should fear-based selling get out of hand amid this pandemic.

Warren Buffett: Mitigating COVID-19 risks

Buffett's recent moves, I believe, acknowledge the unpredictable risks brought forth by the coronavirus and are not to be taken as an indication that a catastrophic market crash is on the horizon. An economic depression is still possible if the monetary and fiscal stimuli fail to combat the economic damages caused by the crisis, but that doesn't mean such a scenario is likely, given the Fed is willing to use its arsenal of tools, some of which have never been used before, to avert a long-lived economic disaster that could rival the Great Depression.

You see, Buffett is still very much invested in the equity markets. Moreover, he owns many severely COVID-hit businesses, such as Precision Cast Parts entirely through **Berkshire Hathaway**, not to mention a considerable chunk of his portfolio was comprised of COVID-hit stocks like airlines and financials going into the crisis. In addition, the insurance businesses have been dealt a left hook to the chin amid the crisis.

When you consider the pandemic essentially blindsided Buffett and Berkshire, it's not a mystery as to why the man is balancing his investments after the fact to account for COVID-19 risks that nobody thought would be of concern going into the latter part of 2019. Not everybody has a portfolio that's as exposed to COVID-19 risks as Buffett. As such, it doesn't make sense to follow the man move for move with the assumption that a market crash is nigh.

So, if there's any takeaway from Buffett's recent actions, it's to maintain a properly balanced portfolio that accounts for a potential worsening of the COVID-19 crisis. COVID-19 is a real risk that needs to be prepared for, despite any near-term optimism that the pandemic will conclude sometime soon.

Will the market crash sometime soon?

Nobody knows. So, unless you've got a crystal ball handy, the only thing you can do as an investor is to ensure your portfolio, like Warren Buffett's, is ready for anything.

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