



Warren Buffett: Don't Stay Too Late At the Party

Description

'They know that overstaying the festivities — that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future — will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands.' – Warren Buffett, Shareholder Letter, 2000

The Oracle of Omaha said these words to his shareholders back in 2000 about trying to time the stock market. I think that this statement seems quite relevant to investors today given the current state of the stock market.

Disparity between the economy and markets

A popular indicator that Warren Buffett uses to determine the health of the global economy is by measuring the stock market's performance. If the consumer demand is high, the gross domestic product (GDP) will grow along with the stock market. The [Buffett Indicator](#) divides the overall market capitalization with the GDP to arrive at a percentage. If the ratio is over 100%, it shows how overvalued the stock market is compared to the GDP.

Based on the **Wilshire 5000 Total Market Index** divided by the U.S. GDP released on July 30, 2020, the Buffett Indicator stands at 170%. It is a historic high and a worrying sign for the economy. The **S&P 500 Composite Index** fell 36% in less than a month back in early 2020. It also had a rapid V-shaped recovery that surprised everybody. The large upward surge is driven by investor optimism, and that is where the problem lies.

Trying to time the market without a clock

Despite the disparity leading to a clear indicator that the market is ripe for a significant crash, investors are holding on to their investments. The quote refers to giddy participants who plan to leave just

seconds before midnight. Buffett said the problem is that there are no hands on the clock. Nobody knows when the clock will strike midnight and send the market spiralling down.

This bubble-like behaviour keeps pushing the stock market into an increasingly overvalued territory. The higher it rises against the actual state of the economy, the worse the fall will be. If you are an investor looking to time the market, I would suggest re-evaluating your approach and preparing yourself for a market crash.

Saving your capital

It might be understandable that you want to hold on to your investments despite another stock market crash scare. Investors want to get the most out of equities before they cash out. The problem is that there is no clear indicator for *when* the market will come crashing down. It can happen without leaving you with enough time to reallocate your capital to safer assets.

Instead of staying at the party a little too late, I would advise reshuffling your portfolio to invest in a non-cyclical stock like **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)). It leaves you with exposure to the stock market, and the company can help you grow your wealth despite volatile market conditions.

Fortis is a utility sector operator that provides natural gas and electricity to its customers. No matter how bad the economy gets, Fortis can continue to generate revenue due to its service's essential nature. The stock is not only attractive because of its stability. The company's current capital program can boost its cash flow in the coming years.

Fortis' board intends to raise the dividend by an average annual rate of 6% by 2024. At writing, its yield is only 3.66%. Still, getting any guidance for dividend growth in a volatile market is rare.

Foolish takeaway

It is no secret that Warren Buffett is expecting a market crash. His company, Berkshire Hathaway, continues to sit on a large hoard of cash reserves. It is clear that Buffett is waiting for the market to crash.

I would advise practicing a more defensive mindset as you [face another market crash](#). Invest in a non-cyclical stock like Fortis to secure your capital while you ride the wave.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/09/13

Date Created

2020/09/03

Author

adamothonman

default watermark

default watermark