Warren Buffett: Is This the Start of the Market Crash He's Been Bracing for?

Description

The jaw-dropping win streak for the stock market came to a crashing halt on Thursday, with the tech-heavy **Nasdaq 100** leading the downward charge, plunging over 5% on the day. As you may know, Warren Buffett has been de-risking his portfolio over the past several months, with stakes in premier gold miner **Barrick Gold** (TSX:ABX)(NYSE:GOLD) and grocers, as he trimmed his bank stocks and threw in the towel on the once-profitable airlines.

With a swelling cash position, there's no question that Warren Buffett was ready for whatever Mr. Market was to throw at him next. The recent surge in momentum stocks is nothing short of unprecedented.

Now, this is no repeat of the tech wreck of 2000. But there are still pockets of severe overvaluation in the market that need to be corrected. As such, investors should still seek to scoop up the bargains that come along amid this September sell-off.

First-half-of-the-year winners like **Shopify** deserve to trade higher than they were prior to February, given it's riding high on pandemic tailwinds. However, one must never neglect a stock's valuation or discount the odds of such a hot stock overshooting its intrinsic value range.

Shopify was a stock trading at over 60 times sales. The stock could have been slashed in half and still have been far more expensive than your average hyper-growth tech stock that's benefited from this pandemic. The recent run-up in stocks like Shopify was likely fuelled by new retail investors who were worried about missing out, as analysts played "catch up" with their price targets like in the lead-up to the Dot-Com Bust.

Is this the market crash that Warren Buffett was hinting at?

I don't think so. I believe this is a very healthy post-melt-up correction that's similar to the one we faced back at the start of 2018. Too many investors wanted to get in on the COVID-19 winners, and eventually, valuations got out of hand, and things came back to reality.

As margin calls come in for momentum-chasing speculators, we could witness amplified downside in the biggest winners. So, instead of buying Shopify after a correction that's merely a blip in comparison to the past-year rally, I'd urge investors to scoop up unfairly beaten-up plays that they know to be undervalued, as the growth-to-value-and-cash rotation could become the major theme going into year's end.

One momentum stock that's likely to stay strong is coincidentally the one Warren Buffett recently initiated a position in — Barrick Gold. In prior pieces, I'd noted that Barrick was bound to see a huge surge to its profitability, as gold prices continued to climb higher (potentially to US$3,000) in response to the unprecedented magnitude of market uncertainty and the rising threat of inflation.

Moreover, I referred to Barrick as the gold standard as far as gold miners were concerned and noted that the growing dividend (currently yielding around 1%) allowed investors to get paid while they enjoy the benefits of physical bullion itself.

Should you follow Warren Buffett into gold?

Barrick Gold stock isn't cheap based on historical valuation metrics. When you weigh the threat of inflation and excess volatility in this market, however, I'd say Barrick Gold is actually cheap, given the type of market environment we find ourselves in.

While I wouldn't overreact to the recent sell-off, I would encourage investors to take profits on their biggest tech winners like Shopify if they haven't done so already and gain some gold exposure if they've yet to do so.

Foolish takeaway

In short, no need to panic after Thursday's market crash (if you can even call it that!). But if you find you're overweight in growthy tech stocks, with no exposure to gold, I'd say it's still not too late to correct your mistakes by trimming a bit of profit off your Shopify stake and getting at least 2% of your assets in a gold miner like Barrick.

If your portfolio is already balanced, with gold and a good mix of value and growth, treat the recent pullback as nothing more than a garden-variety buying opportunity across the names on your radar.

I don't think Warren Buffett foresees a devastating market crash and think the recent sell-off is a repeat of early 2018, *not* 2000.

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