



Warren Buffett: Has the Perfect Storm Just Begun?

Description

Either Warren Buffett mostly missed out on one of the greatest [buying opportunities](#) of all-time, or this run-of-the-mill market correction could evolve into something far worse. Not to scare you or anything, but given the fact that so many beginner investors have gotten overly greedy with high-momentum stocks over the past few months, it's worthwhile to keep your enthusiasm in check, especially given we're not out of the woods yet when it comes to this crisis.

Post-Fed-meeting flop

The Fed failed to soothe the markets, despite committing to keep interest rates low until 2023. A lower-for-longer environment bodes well for corporate earnings. Still, the Fed's monetary statements were not at all a surprise, especially given a lack of inflation and the unprecedented unemployment rate, which could drastically worsen if we're due for a second wave that could bring forth reopening rollbacks and another round of shutdowns.

With a lower-for-longer environment now baked into stock prices, there's little room to budge as far as interest rates are concerned. So, if another wave of shutdowns hits, we could be propelled into a negative interest rate environment that could have unknown, long-term consequences. In any case, it seems as though the side effects of such a move may be less severe than a lack of action if we are due for a severe second wave of COVID-19 cases.

Could negative interest rates be in the cards?

Warren Buffett isn't afraid of negative interest rates. But he is ready for things to get weird, especially when it comes to the big banks, which he's been a big seller of lately.

There's no telling if interest rates will be going negative or if a second wave of COVID-19 cases will be as severe as the first. Investors are entering uncharted territory heading into the autumn months. With the **TSX Index** under pressure yet again, don't rule out another wave of panic that could spark avicious market crash rivalling the one suffered earlier in the year.

Like back in March, I suspect the Fed will step in should the selling activity get out of hand again. As such, the next market sell-off ought to be treated as an opportunity to nibble away at bargains as they come along. The Fed has an arsenal of tools it can still use. The thing is, nobody knows which tools it'll use and by what percentage the broader markets have to plunge before the Fed announces its plans to implement them.

In any case, investors should take a page out of Warren Buffett's playbook by balancing the new slate of risks brought forth by COVID-19. While we're closer to a safe and effective vaccine this time around, many stocks are also trading at nosebleed level valuations. You could argue that the froth could be taken off the top and then some should this pandemic take a turn for the worst.

Given investors have a friend in the Fed, though, I'd be ready with dry powder on the sidelines, so you'll be able to swing at the fastball bargains that could be pitched your way over the coming weeks and months.

So, has the perfect storm just begun?

We could easily be due for another wave or two before we're out of the woods. That said, the second wave may be far more muted than the first one, and if that's the case, stocks could be headed for another melt-up en route to a vaccine, with COVID-hit names like **Air Canada** leading the upward charge.

In short, nobody knows where the TSX index is headed next. All you can do as an investor is be like Warren Buffett and be ready to be a buyer if another [opportunity](#) presents itself on panic-inducing news. As we found out over the last few months, such a panic-driven market crash can be a terrible thing to waste.

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