



Warren Buffett's Favourite Indicator Is Flashing a Huge Warning!

Description

Canadian stocks gained significant momentum in the summer in the face of a tumultuous economic situation. This was a trend that followed in stock markets across the developed world, but particularly in North America. In August, I'd warned investors that storm clouds may be on the horizon. Warren Buffett is an investing legend, and it never hurts to keep up to date with his outlook. Buffett's favourite market indicator has suggested that investors may want to [bail on this market](#) since the late summer.

Warren Buffett: What does his favourite indicator tell us right now?

Later in August, I'd discussed how investors [could outperform](#) their peers in the next market crash. Warren Buffett came out of the 2007-2008 financial crisis and subsequent recession wealthier than ever. Investors should look to emulate the investing legend in 2020. Recognizing trends and acting on warning signs is one of the ways we can come out on top.

The Buffett indicator takes the market capitalization of publicly traded stocks and divides it by that country's gross domestic product (GDP). Since the middle of the summer, this indicator has hovered around historic highs. This suggests that domestic and global stock markets are overvalued right now.

Volatility has ramped up as the United States Presidential Election approaches.

Stocks to buy and sell in this environment

The investing world was shocked to learn that Warren Buffett's company **Berkshire Hathaway** had taken up a gold position in the summer. It purchased over \$500 million in **Barrick Gold** stock. While Buffett himself may not have pulled the trigger on the buy, it demonstrated strength for the yellow metal. However, gold has pulled back from its record highs of over \$2,000/ounce in the early fall. It was trading at just under \$1,900/ounce at the time of this writing.

Kirkland Lake Gold was one of the top performers on the **TSX** throughout the 2010s. Shares of Kirkland Lake have climbed 10% in 2020 as of close on October 6. The stock has dropped 7% month over month as gold has shown weakness. Still, an economy in crisis combined with historically low interest rates will continue to produce a bullish climate for gold. Because of this, it is worth following in Warren Buffett's footsteps.

Buffett bet on airliners early in the COVID-19 outbreak. However, Buffett would bail on this investment as it became apparent that airliners would take a big hit due to the pandemic. This industry continues to face huge challenges in the fall. **Air Canada** stock has dropped 68% in 2020 as of close on October 6. Cancellations for Air Canada and WestJet soared in September. Airliners may have only passed through the eye of the hurricane as the second wave of COVID-19 threatens the broader economy.

Warren Buffett: Is a market crash on the way?

Warren Buffett's favourite indicator tells us that North America and global stocks are overvalued right now. That means investors should be prepared for the worst-case scenario in the weeks and months ahead.

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