



Warren Buffett: Why Now Is a Great Time to Be Cautious

Description

Warren Buffett has faced his fair share of critics this year after having mostly sat on his hands during the 2020 market crash. The man threw in the towel on the airlines at a loss, ditched his favourite bank stocks, and scooped up shares of top-tier gold miner **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) and grocers. Indeed, it seems as though Warren Buffett is erring on the side of caution amid this unprecedented pandemic that could have many more surprises in store before it has a chance to end.

Indeed, many smart money managers have touted that the risk/reward is not great here. Various U.S. indices are above where they were before the markets imploded in the latter half of the first quarter, despite a minimal amount of good news on the COVID-19 front.

Greed could turn into fear, and fast!

With **Johnson & Johnson**'s vaccine trial on pause, investors may be discounting the potential for this pandemic to drag on through the entirety of 2021. Some health experts point to the third quarter of 2021 for the arrival of a safe and effective vaccine that's readily available for distribution. But that doesn't mean you should prepare your portfolio with the assumption that the pandemic will be over by 2022. Things could still go very wrong, especially if further waves of COVID-19 end up becoming far worse than the first.

Amid such high uncertainties, you need a glimmer of certainty in your portfolio if things do go south again, as they did back in February. Barrick Gold stock is one of Warren Buffett's preferred ways to get such a glimmer, with the rising threat of inflation and the growing possibility of a second coronavirus market crash.

Gold: Not as unproductive or costly to hold as it used to be

Now, Warren Buffett may have turned you against gold as an investment with his past words. But as I've described in many of my prior pieces, the man is simply adapting with the times. When he slammed gold as an asset, he probably had no idea that we'd fall into a horrific pandemic that would

see interest rates fall to zero with a chance of going negative. Yes, gold may not be as productive as certain equities, but the benefits of holding gold now come at a lower opportunity cost, with rates as low as they are.

I'd pounded the table on Barrick Gold stock well before Warren Buffett had announced that he'd purchased shares. I referred to Barrick as the gold standard as far as gold miners were concerned and praised the name for its somewhat bountiful 1.1%-yielding dividend that was far more bountiful than most short-duration fixed-income securities in this era of near-zero interest rates.

Are gold prices too high and overdue for a pullback?

Barrick's recent dividend hike serves to reinforce my thesis further. While the bears would argue that gold prices are unsustainably high at around US\$1,900 given the midcycle price is around US\$1,300, I'd argue that today's unprecedented times call for equally unprecedented moves in the price of gold.

Heck, I'd be more surprised to see gold at US\$1,300 than US\$2,500. Pandemic uncertainties won't last forever, but the threat of inflation could keep gold prices propped up for far longer than the bears are expecting.

Foolish takeaway

The longer the "new normal" lasts, the more profitable Barrick and its peers will become. If you lack exposure to precious metals, I see few reasons that should stop you from following Warren Buffett into the name, at least with a small position.

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