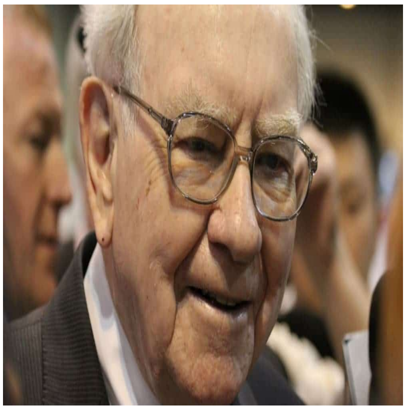

You’d Be Wise to Follow Warren Buffett Into This Stock

Description

Warren Buffett is one of the greatest investors of our time. When the man speaks, investors should listen. When the man acts, investors should seek to conduct a top-down analysis of his move, as his buys could reveal where to look for the best opportunities at any given instance in time. If you’ve been paying attention to the Oracle of Omaha’s latest moves, you’re probably thinking he’s running scared. The pandemic brings forth an unfathomable amount of uncertainty. And it’s become vital to balance one’s exposure to stocks that stand to feel the full impact of the coronavirus crisis.

Earlier in the year, Warren Buffett mostly sat on his hands when Mr. Market pulled the rug from underneath investors. He sold airline stocks, ditched some of his favourite banks, and then proceeded to load up on shares of gold miners and grocers. It’s clear that Buffett would rather be late to take coronavirus risks off the table than remain overexposed, running the risk of realizing excessive, potentially permanent losses if the pandemic were to drag on longer than most other investors expect.

You’ve probably heard we’re in for a V-shaped economic recovery. In the face of a second wave of COVID-19 cases, talking heads may now be looking to a K-shaped recovery. With various vaccine trials being put on pause over safety concerns, we very well may hear folks bring up an L-shaped recovery, with the “d” word (depression) being thrown around once again. Warren Buffett couldn’t care less what shape the so-called pundits are projecting over the next several months. He’s ready for any letter, and his positions reflect such.

Warren Buffett warms up to gold miners with Barrick Gold investment

One of Buffett’s most eyebrow-raising moves was his decision to reverse his stance on gold by scooping up shares of premier gold miner **Barrick Gold** (TSX:ABX)(NYSE:GOLD). Indeed, unprecedented times call for equally unprecedented stance reversals. While it remains unclear as to why Warren Buffett is warming up to gold after shunning it for most of his investment career, I think his stance reversal is because of the weird environment we currently find ourselves in.

Near-zero interest rates have a chance of going negative. An unprecedented amount of monetary and fiscal stimulus could cause an unchecked rise in inflation over the next three years. The stomach-churning market tends to move on outcomes of contingent COVID-related developments. There is a rampant amount of speculation in the hotter momentum stocks. And the riskier market doesn't necessarily compensate with a greater potential for rewards.

When Buffett slammed gold as an investment, he probably didn't think a global pandemic would pave the way for one of the most unpredictable market environments of his time. Although gold remains a relatively "unproductive" asset under normalized conditions, I think it's become a vital hedge for those who've yet to gain exposure to the precious metals that can offer a slew of benefits from these unprecedented times.

Barrick is the gold standard: Warren Buffett knows this

Barrick Gold, as I've described in many prior pieces, is the gold standard as far as gold miners were concerned. Management is top notch and can drive efficiencies like few others in the business. With a bountiful 1.1% yield (it's not much, but is way more than short-term bonds and savings these days) that stands to go up amid rising gold prices, I'd say investors would be wise to follow Buffett into the name if you have zero exposure to the precious metals.

Sure, gold prices are on the high side at around US$1,900. And while mid-cycle prices could imply a significant plunge in Barrick stock, I think we're not headed back to mid-cycle levels anytime soon, given the profound amount of damage this pandemic has caused to the world economy.

Foolish takeaway

Although you won't nab the same low cost basis as Warren Buffett, I still think the latest pullback in Barrick stock is worthy of nibbling on, especially if you lack sufficient volatility hedges that are only possible with such alternative asset classes.

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