



Stock Market Crash: Was Warren Buffett Right All Along?

Description

Warren Buffett looks pretty foolish (that's a lower-case f) these days through the eyes of the mainstream financial media. The airline stocks are soaring on the recent slate of good vaccine developments. Had Buffett just stayed the course or bought more while most others were fearful, he would have been doing well right about now. Similarly, bank stocks are roaring higher now that the pandemic's end is coming into sight.

Renewed COVID-19 vaccine hopes point to a 2021 that could hold one heck of a relief rally. It's hard to find any bears on the Street these days, given recent vaccine breakthroughs. With dovish former Fed chair Janet Yellen set to lead the U.S. treasury, the U.S. stock market has climbed to new heights, and the **TSX Index** isn't lagging too far behind.

However, with a worsening second wave of COVID-19 to get through before the coast is clear, I think investors are getting a bit ahead of themselves. The coronavirus is about to get much worse before it gets better, and as the vaccine-driven rally comes to an end, the page could turn on this sweet November to a brutal Santa Claus sell-off in December. With this possibility in mind, could Warren Buffett have been right to curb his optimism amid the pandemic? Or is the coast clear to back up the truck on shares before the COVID-19 is finally conquered?

Was Warren Buffett right to be so bearish in 2020?

While I think it was a mistake for Warren Buffett to prematurely sell his U.S. airline and bank stocks near the worst possible time, it may be too early to tell. Although the markets are hopeful, our collective hopes are high for 2021. Perhaps too high. And that could pave the way for a vicious stock market crash.

There's no telling when the U.S. fiscal stimulus package will land. If the current wave ends up being far worse than anyone's expecting, don't be surprised if we fall into a correction before the markets can sustain its next leg higher. With other negative surprises that could come to be, investors would be wise not to exhaust their cash reserves in case we're due for one more steep pullback in this

coronavirus-plagued market.

Could 2020 hold yet another correction?

Analysts at **Morgan Stanley** seem to think that the stock market could be “ripe for a [12%] correction” by year’s end but also noted that it sees the **S&P 500** rising steadily higher through 2021. As you may remember, I [echoed](#) Morgan Stanley’s last correction call on the eve of the late-October pullback.

While I wouldn’t take any drastic action here, I would seek to take profits on the biggest winners (maybe trim the airlines like **Air Canada** after their big run) of the last three weeks, as they could be at the greatest risk of retracement. As vaccine-driven optimism fades, I wouldn’t at all be surprised to see Warren Buffett scoop up his old airline stocks now that there’s more clarity with that [COVID-19 vaccine timeline](#). In any case, Buffett probably isn’t in a rush yet. But if we’re due for a stock market crash in December, he will be ready with cash in hand, and so should you.

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