



This Is What Scares Warren Buffett and Charlie Munger

Description

The next bear market could have the potential to be vicious and unforgiving to investors who've grown overly complacent in this [latest market rally](#). While the latest round of good news is pointing to an abrupt 2021 economic recovery, there's really no telling what the aftermath of excessive stimulus will be down the road.

Could we be in for an unchecked uptick in the rate of inflation? Or is a deflationary spiral the likelier scenario, given consumer demand (and wages) could go on the retreat after the stimulus stops flowing in? Will inflation stay in check at around 0-3% once things normalize? Could we be in for substantial income tax hikes to pay off the bill for 2020?

There are arguments for all sides, but I wouldn't look to make a single bet on the outcome of any scenario, as I'm no seasoned economist or fortune teller.

Warren Buffett and Charlie Munger aren't too sure what comes next either

Not even Warren Buffett, the greatest investor of our time, is certain of the longer-term effects of this crisis. Regardless, the man is hedging his bets on all fronts, so he'll do relatively well if we're in for inflation, deflation, or disinflation. And with plenty of dry powder on the sidelines (**Berkshire Hathaway's** mountain of cash keeps swelling), Buffett will surely be [licking his chops](#) come the next bear market (a peak-to-trough decline of at least 20%), which is when the greatest riches tend to be made.

In addition to cash, you'll also need some names in your portfolio that can hold their own, so you won't lose your shirt or your cool once Mr. Market decides to pull the rug from underneath investors once again. There's no telling whether the coronavirus crisis will be the direct cause of the next market crash or if it'll be an after-effect due to the unprecedented magnitude of money-printing.

Charlie Munger seems a tad worried over the potential aftermath of this horrific pandemic in his sit-

down with *CNBC*.

"I am so afraid of a democracy getting the idea that you can just print money to solve all problems. Eventually, I know that will fail," said Charlie Munger.

Now, it's unlikely that Canada or the U.S. will end up like Venezuela once the coronavirus crisis falls into the rear-view mirror. That said, it'd be unwise to assume that this market is in the clear, just because the pandemic's end is now in sight.

A safety play with a ridiculously low price of admission amid the rotation towards risk assets

If you're looking for stocks that can have your back in any environment, consider looking to low- to no-beta stocks like **Emera** ([TSX:EMA](#)), with its regulated cash flow stream that can withstand the ripples that could follow the coronavirus typhoon. The stock may not be an alternative asset (alternative to equities), but it sure acts like one, making one of the better bond proxies out there for investors who may have been rattled by the excessive volatility suffered back in February and March.

Emera is gradually increasing its mix of regulated assets. A higher degree of regulation means fewer earnings surprises. Such a lower-volatility mix of operations also means that Emera is poised to see the quality of its earnings increase over time.

At 15.4 times trailing earnings, Emera is dirt cheap and is poised for substantial multiple expansion over the coming years, as management continues improving its mix of assets. In the meantime, the stock, as well as other defensives, are likely to take a hit to the chin as the risk appetite increases following the incredible vaccine news delivered in early November.

I'd treat the sell-off in defensives like Emera as nothing more than a buying opportunity.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. TSX:EMA (Emera Incorporated)

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