# Warren Buffett Warns: A Market Crash Is Coming!

### Description

One of the reasons why Warren Buffett has managed to consistently beat the markets in the last five decades is due to his ability to identify quality stocks trading at a discount. The Oracle of Omaha is always on the lookout for undervalued blue-chip stocks.



Further, Buffett has always advised buying stocks when the markets are in the midst of a sell-off. However, in the third quarter of 2020, Warren Buffett's **Berkshire Hathaway** reduced its position in multiple companies that included banking stocks such as **JPMorgan** and **Wells Fargo**.

In the last few months, Buffett has liquidated investments in the airline sector and reduced exposure to banking companies by a significant margin. His investments in Japan as well a position in gold-mining company **Barrick Gold** (TSX:ABX)(NYSE:GOLD) indicate the Oracle of Omaha is not too bullish on equities right now and is bracing for a market crash.

## The Buffett Indicator predicts another market crash

One of the easiest ways to gauge a stock market crash is by looking at the Buffett Indicator, also known as the market cap-to-GDP ratio. If this ratio is over 100%, it suggests that the equity market is overvalued. The Buffett Indicator for the S&P 500 is 180%, indicating the index is absurdly overvalued.

Berkshire Hathaway ended Q3 with $145.7 billion in cash, which will be put to use when the markets crash again. While it is impossible to time the markets, you can be prepared for any turbulence and diversify your portfolio.

Investors can, in fact, follow Buffett and take a position in mining companies such as Barrick Gold.

## Barrick Gold stock is trading at a 47% discount to consensus estimates

One of the best ways to protect yourself from a market crash is to invest in gold, which has an inverse relationship to equities. Investors can also look to buy gold-mining stocks that benefit the most from surging prices of the yellow metal.

The interest rates are unlikely to move higher in the upcoming years and the U.S. dollar will also be under pressure due to quantitative easing policies. These two factors are primary drivers for higher gold prices.

Barrick Gold expects to [deliver an all-in sustaining cost]() (ASIC) of just below US$1,000 per gold equivalence ounce in 2020. This allows the company to generate a cash operating margin of between US$900 and US$1,000 giving it enough room to strengthen its balance sheet.

Due to rising gold prices in 2020, Barrick Gold has reduced its net debt by 71% in Q3 on a sequential basis and reported a free cash flow of US$1.3 billion as well.

Barrick Gold stock is trading at a forward price-to-earnings multiple of 20 and a price-to-sales multiple of 3.3. Comparatively, analysts expect sales to rise by 28.8% in 2020 and 7.1% to $13.4 billion in 2021. Its earnings growth in the next five years is forecast at a solid 35.5%.

Analysts tracking the stock have a 12-month average target price of $34, which is 47% below its current trading price.



**CATEGORY**

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