



Warren Buffett Warning: Be Fearful When Others Are Greedy

Description

Warren Buffett is famous for his quotes as well as his financial acumen. One of the best-known bits of advice Warren Buffett provided over the years is to “Be fearful when others are greedy and be greedy when others are fearful.”

Contrarian investors use the strategy to pick up [oversold stocks](#) during market crashes and avoid chasing overbought stocks during times when markets get too expensive. In most of 2020 investors had ample opportunity to buy great stocks at discounted prices. The latest surge in the market, however, warrants some caution.

Warren Buffett: Market crash 2.0 risks

American markets now trade near all-time highs. The post-election rally fuelled by positive COVID vaccine announcements looks stretched amid the ongoing rise in COVID cases. Unemployment remains high in the United States and new job losses might be on the way due to the latest lockdown efforts.

Here at home the situation also remains uncertain. According to the latest information from Statistics Canada, the average [household debt ratio](#) in Q3 2020 came in at 171%. This is down from the 181% peak in Q4 2019, but up from the 163% reported in Q2 2020.

To put the number in simple terms, it means the average Canadian household owes \$1.71 for every dollar of disposable income. While a big chunk of this is mortgage debt, it still paints a concerning picture with unemployment at 8.5% for November. Government aid relief is winding down and payment deferrals on mortgages, credit cards, and other loans are expiring.

The vaccine rollout will take time and the markets might be underestimating the logistical challenges governments face in trying to ensure a smooth vaccination program. Even in the best-case scenario, most people in Canada and the United States won't get a COVID vaccine shot until the summer.

Warren Buffett might suggest it is a good time to be cautious.

Overvalued stocks Warren Buffett might avoid today

As a result, the huge rally in some parts of the stock market appear overdone. **Air Canada** is up more than 75% in the past six weeks, despite a worsening travel environment, rising fuel costs, and uncertain bailout terms being negotiated with the government. Warren Buffett sold all of his airline positions in 2020.

South of the border, tech initial public offering (IPO) mania is reminding long-term investors of the dotcom days 20 years ago.

Even the smart guys can't agree on valuations. One top U.S. investment bank has a price target for **Tesla** of US\$780 per share. Another says it is worth US\$90 per share. At the time of writing the stock trades near US\$635 per share. That gives Tesla a market capitalization of US\$600 billion. To put this in perspective, **Toyota**, **GM**, and **Ford** have combined market caps of less than US\$350 billion.

It would therefore make sense to follow Warren Buffett's advice to be fearful in the near term.

Greedy stock picks?

Despite the general froth in the market, some stocks that took a beating this year still appear cheap.

Warren Buffett's Berkshire Hathaway bought shares of **Suncor** and **Barrick Gold** in Q2 2020. The company also spent US\$10 billion on a natural gas transmission acquisition. The Canadian equivalent in that sector would be **TC Energy**, which still trades well below the 12-month high and provides a solid 5.7% dividend yield.

The bottom line

Investors who own some of 2020's big winners should consider booking profits. The dry powder could come in handy in the next few months.

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