Warren Buffett: The Economy Is Ready to Crash

Description

Warren Buffett thinks the economy is about the crash. It's not hard to connect the dots.

He's selling stock in economically-sensitive businesses, and is even ditching one of his longest-tenured holdings.

If you trust Buffett, keep reading.

The latest trades

Banks are essentially leveraged bets on the economy. That's literally the business model. Banks take deposits, and lend the money out at higher interest rates, putting huge amounts of debt on the balance sheet of financial institutions, generating attractive returns on equity even if actual profit margins are quite thin.

When the economy does well, bank stocks do well. When the economy tanks, bank stocks get pummelled. As a multi-decade owner of bank stocks, Buffett knows the cycle intimately. That's why his latest trades are worrying.

"**Berkshire** cut its stake in several large banks…including **Wells Fargo**, **JPMorgan Chase**, **PNC Financial** and **M&T Bank,"** reports the *Financial Times*.

While Buffett was a relative newcomer to some of those names, Wells Fargo has consistently been one of his biggest positions, through thick and thin. He has defended the company during past market downturns.

"Berkshire, which once was one of the largest Wells Fargo shareholders with a stake of roughly 10% of the bank, now holds just 3.1%," the *Financial Times* concludes.

Buffett does not trade the market. He makes long-term bets, longer than nearly any other money manager. His outright disposition of economically-sensitive stocks should make everyone nervous.

If you want to prepare for the coming crash, look below.

How to follow Buffett

There are some clear lessons to learn. The biggest action item is to reduce your exposure to financial institutions like **Bank of Montreal** or **Royal Bank of Canada**.

"Canada's economy is over-leveraged, which could put some of its largest banks in danger," explains Fool contributor Vishesh Raisinghani. "At the moment, Canadian households have $230 in debt for every $100 in disposable income. Meanwhile, corporate debt is 118% of gross domestic product (GDP) and government debt is likely to reach 97% of GDP by the end of the year."

If the market tanks, bank stocks will fall hardest. Buffett seems to signal this risk with his latest trades.

Take a look at your positions. Which businesses are most economically sensitive?

A tech stock selling to enterprise customers, for example, could experience little to no impact during a sharp recession. Stocks in the financial sector, meanwhile, are directly reliant on their borrowers maintaining good financial health. That's no guarantee during a downturn.

Bottom line

Buffett has experienced more bear markets than nearly any investor alive today. He has experience, but also a proven resume. Berkshire stock has posted 20% average annual gains for more than 40 years. If you decide to emulate any investor, Buffett is a strong first choice.

But downturns don't necessarily mean ditching the market completely. Even Buffett is maintaining most of his positions. His bank stock dispositions simply reflect growing personal uncertainty about the markets.

As long as you keep a long-term perspective, there are plenty of stocks still worth buying today.

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