Warren Buffett: A 2021 Market Crash Can't Be Ruled Out

Description

Warren Buffett is bullish on America, but he's been placing his bets very carefully amid profound uncertainties. While many critics slammed him for not having backed up the truck on bargains with Berkshire Hathaway's cash hoard during the February-March market crash, which ended up becoming one of the best near-term buying opportunities of all-time, it would be unwise to ignore the implicit warnings of the Oracle of Omaha.

When Warren Buffett talks, it can pay dividends to be all ears. When the man makes moves, investors should be on alert. While I don't think Warren Buffett is preparing his defences for another vicious market crash, his recent actions imply that he's cautiously optimistic and that he has no idea what the markets will have in store come 2021.

2020 has been a brutal year for us all. But despite the global pandemic, the unprecedented unemployment spike, the terrifying uncertainties brought forth by the new normal, and one of the worst economic shocks of all-time, the **S&P 500** managed to post nearly 14% in year-to-date returns.

Now, it hasn't been a smooth ride up by any stretch of the imagination. But the fact that stocks are up so much in such a terrible year should serve as an example of why it's a terrible idea to time the markets. The stock market *isn't* the economy, and not even the most seasoned economists can beat it on a consistent basis over the long run.

Warren Buffett: Tilting the risk/reward in his favour

Warren Buffett couldn't care less about trying to time the market, and he doesn't have a crystal ball handy to forecast macroeconomic trends accurately. What he *does* possess is incredible patience, discipline, and a mindset that allows him to tilt the long-term risk/reward trade-off ever so slightly in his favour.

You see, he's all about buying wonderful businesses at fair-to-wonderful prices. Of late, he's seen opportunity, not in the sexiest of reopening plays like **Air Canada** or **Cineplex**, but the defensives. Warren Buffett isn't seeking to maximize his potential returns going into 2021, given the pandemic's end is in sight. He's trying to optimize his risk/reward with calculated bets that account for both upside potential and downside risks in the event of negative surprises.

With recent bets on healthcare firms, Steady Eddie Japanese trading companies, gold miner **Barrick Gold**, grocers, and his own firm Berkshire Hathaway, Warren Buffett looks okay with settling for modest returns in 2021, even as most other reopening plays stand to skyrocket.

While most folks on the Street are pretty bullish on 2021, I'd encourage investors to take a page out of Warren Buffett's playbook by acknowledging uncertainties and investing in improving your risk/reward rather than your upside, with little to no consideration for downside risks in the year ahead.

Foolish takeaway

Warren Buffett's greatest strength, I believe, is that he's humble enough to acknowledge unknowns and bold enough to place big bets in opportunities that he believes in. While 2021 could be another big year for the stock market, I'd urge investors not to expect a smooth ride to the post-pandemic world or rule out the occurrence of another market crash.

Negative surprises such as mutated strains of coronavirus could stop the rally in its tracks. And an end to the pandemic does not necessarily mean that returns will be good or even positive on the year. My takeaway?

Follow in Warren Buffett's footsteps by being cautiously optimistic and be careful with where and how you place your bets.

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