Stock Market Crash 2021: Should You Play It Safe Like Warren Buffett?

Description

The pandemic-plagued year of 2020 will soon be behind us. As the page is turned to a new year, it's hard to find anyone who's remotely bearish now that a handful of COVID-19 vaccines could (hopefully) put an end to this horrific pandemic at some point over the coming months.

Analysts at **JPMorgan** seems to think that the **S&P 500** could soar as high as 4,500 in 2021, implying just over 21% worth of upside from today's levels. At the lower end, we have the folks at Citi, which is less bullish but certainly not bearish, calling for the S&P 500 to hit 3,800 in the new year, implying a measly 2.7% worth of upside.

Warren Buffett's not backing up the truck yet, and neither should you

With Warren Buffett taking on a more cautiously optimistic approach with his latest bets, I'd say it's wise for investors to hedge their bets by hoping for the bullish JPMorgan scenario to pan out in 2021, but not ruling out the potential for volatility and meagre upside as predicted by other analysts like those at Citi.

There's no question that analysts are divided between extreme bullishness and cautious optimism amid continued uncertainties. While it may seem like the coast is cleared just because vaccine rollouts have just begun, investors should remember that when few are bearish, it's a good time to play it carefully.

Now, I don't think you should back up the truck on gold or Bitcoin. Both assets have been slammed by Warren Buffett ad nauseam in the past, and both have been on a tear in 2020 amid profound uncertainties. While 2021 may not be nearly as uncertain or scary as 2020, it'd be foolish (that's a lower-case "f," folks!) to think that the days of excessive amounts of volatility are over and to rule out the possibility of a market crash that could catch all the sell-side analysts by shock.

2021 will be a huge up year… right?

While the outlook for 2021 looks better, there's no telling how the stock market will perform. Who would have thought that the S&P 500 would be up by the double digits in a pandemic-plagued year that held one of the worst economic downturns in recent memory? On the flip side, who would have thought that 2018, a year with corporate tax cuts, would have been a down year?

The unprecedented magnitude of stimulus paved the way for a V-shaped recovery in 2020, and the Fed's overly hawkish tone in late 2018 sent the stock market tumbling right through the holiday season. Both surprises made it more rewarding to take on a contrarian stance by being fearful when others became too greedy over Donald Trump's corporate tax cuts — and being greedy when the markets tanked in February and March when the world was poised to fall into the worst economic downturns since the Great Depression.

Foolish takeaway

There's no telling what we'll be in for in 2021. Heck, if vaccine rollout challenges or COVID-19 mutations delay the end of the pandemic, count me as unsurprised if we're in for a 2021 stock market crash should recover expectations need a reset. As such, investors would be wise to follow in Warren Buffett's footsteps by being bullish, but mildly so, given the profound uncertainties that still exist, most notably with potential COVID-19 mutations, unforeseen vaccine rollout challenges and a potentially bumpy road to recovery.

Warren Buffett's invested in **Barrick Gold**, Steady Eddie Japanese trading companies, healthcare stocks, and grocery stocks for a reason. He's not ruling out the potential for negative surprises, even though many professionals expect the market momentum to continue into the new year. But he's also not running scared. He's cautiously optimistic, and his recent moves suggest he's bullish but is not willing to rule out the occurrence of another stock market crash.

If you've yet to hedge your bets, you may wish to do so while the price of admission is relatively low after most others rotated into the reopening plays to maximize their upside.

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