Warren Buffett: A New Year Crash Is on the Horizon

Description

In times of uncertainties, it is always advisable to trust the experts. And when it comes to investing in the equity markets, Warren Buffett remains the undisputed leader.

Despite a global recession, high debt levels, and sluggish macro-economies, most equity markets are trading near record highs. However, it seems the Oracle of Omaha is expecting the markets to crash in the near term.

Warren Buffett has a truckload of dry powder

At the end of Q3, **Berkshire Hathaway's** cash balance stood at US$147 billion. It indicates Buffett is ready to take advantage of any price correction in 2021, as the dry powder can be used to buy companies at a lower valuation.

While it is impossible to time the market, a market crash is likely to happen sooner rather than later. The stock markets have made an enviable comeback after the bear market of March 2020. However, the market rally has been primarily supported by stimulus packages, state-sponsored benefits, a presidential win, and optimism over the development of an effective vaccine.

Several sectors, such as traditional retail, are grappling with low consumer spending, while the energy and airline sectors are still negatively impacted by the economic shutdowns and the recent surge in COVID-19 infections.

Identify companies like Fortis that have strong fundamentals

In case fears of a market crash come true, investors need to identify companies that have an established presence, steady cash flows, and a recession-proof business. Alternatively, you can also look at gold mining companies such as **Barrick Gold** that have a negative correlation to equity markets.

The utility sector is a defensive one, and investors can look to buy stocks in Canadian giants such as **Fortis**

(TSX:FTS)(NYSE:FTS). Utility companies have a predictable revenue stream across business cycles, allowing them to increase dividend payments, even during economic downturns.

Fortis has increased dividend payouts for 47 consecutive years, making it one of the top dividend-paying companies in Canada. Currently, it has a forward yield of 3.9%, which means a $10,000 investment in the utility heavyweight will generate $390 in annual dividends.

Investors can expect dividends to increase over the next few years, given the company's focus on expanding its asset base, which will help it derive higher cash flows in the upcoming decade.

Fortis generates over 90% of revenue from its regulated assets, which means its business model is resilient. It expects to increase the rate base by $10 billion in the next five years, and investors should brace for at least a 5% increase in dividend payments in the next few years.

The Foolish takeaway

Investors need to ensure they pay enough attention to the stock market and take advantage of a market crash. You can identify a portfolio of stocks that are similar to Fortis and ensure minimal damage as well as benefit from steady dividend income.

Alternatively, investors should also identify stocks that can be purchased at a discount, post a market crash, and benefit from exponential gains in the long term.

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