



4 Ways Warren Buffett Is Preparing for a Market Crash in 2021

Description

Stocks are hovering around all-time highs. Valuations are the highest since the dot-com bubble. Various experts and some of the greatest investors of all time, including Warren Buffett and Charlie Munger, have warned investors for some time that we're approaching nosebleed levels in terms of valuations right now.

With the potential for a 2021 [market crash on the horizon](#), let's look at what Warren Buffett has done. After all, riding on the coattails of one of the greatest investors of all time is a Foolish way to invest. Here are four things Warren Buffett has done that I think all investors should at least consider.

Step one: Unload airline exposure

In Q3, **Berkshire Hathaway's** Warren Buffett exited his airline positions, after a few years of seeing impressive gains in this sector. The Oracle of Omaha held a basket of U.S. airlines.

Canadian investors considering shares of **Air Canada** ([TSX:AC](#)) as a rebound play should therefore take warning. When smart money is moving away from this sector, choosing to take a contrarian view can be costly. I've been bearish on airlines generally since January and think this sector is due for some pain. Structural changes to how and why we choose to fly in the future may impact this sector to a greater degree than what is being priced in to these stocks today.

Step two: Hedge your portfolio

One of Warren Buffett's [recent portfolio additions](#) is none other than Canadian gold miner **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD). This gold stock has been one of my top picks for some time for a number of reasons.

The company's size and scale is impressive, making this the largest company in this sector on certain metrics. Barrick does have impressive gold reserves, providing a real runway to long-term production growth for investors looking to make a long-term bet on this sector. The company's fundamentals are

strong, providing support to the thesis the company could continue to raise its dividend aggressively over time. Barrick has raised its dividend aggressively of late, and I think more could be on the horizon. This would be a big bonus for income investors. That said, a 1.6% dividend yield is still pretty great today, considering where bond yields are.

Warren Buffett did cut his Barrick position by around 40% in Q3. Whether Mr. Buffett was looking at Barrick as a hedge or a core portfolio holding has now been called into question. That said, I still think this company is one of the best ways to hedge for long-term investors.

Step three: Invest in “forever businesses”

Warren Buffett's strategy for years has been to focus his energy on companies with wide moats — that is, those companies that have durable competitive advantages in the sectors they operate in.

Looking at Berkshire's portfolio, one will notice that durable competitive advantages are everywhere. For Canadian investors seeking great U.S. companies, I'd highly recommend looking at the companies held by Berkshire Hathaway. This list will provide a very concentrated list of the best companies out there in the U.S.

Geographic diversification is important. Picking up shares of Berkshire Hathaway is another great way to gain this diversification. Doing so provides access to this high-quality portfolio built for the long term.

Step four: Focus on defensiveness

Warren Buffett's portfolio is highly defensive. While some may note how defensive his portfolio has traditionally been over the years, this holds true now more than ever.

One interesting thing investors may notice is that **Apple** ([NASDAQ:AAPL](#)) now makes up nearly 50% of Berkshire's portfolio. This may seem contrary to the typical rules of defensiveness or diversification we're taught in business school. That said, putting more of one's eggs in one really good basket is a great way to beat the market for those so inclined. Apple's business model is highly defensive, despite being labeled a “FAANG” stock. The company's high levels of customer loyalty and wide moat actually makes this a great defensive play.

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1. Investing
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1. market
2. market crash
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TICKERS GLOBAL

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2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:AC (Air Canada)

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