



Warren Buffett Is Waving a Market Crash Red Flag

Description

Deloitte, a leading professional services firm, sees a slow recovery of the U.S. economy in 2021, with gross domestic product (GDP) slipping by 1.7%. Vaccine development was the good news in December 2020, propping up stocks. However, COVID-19 has inflicted severe damage that even trillions of dollars in stimulus plans can't stave off a market crash forever.

A signal that something isn't right is the moves of Warren Buffett this year. His investment firm, **Berkshire Hathaway**, cashed out roughly 60% of its stock portfolio in June last year. The company's cash coffer has grown to US\$122 billion. However, one of Buffett's investments in the second quarter of 2020 was intriguing to market observers.

The Oracle of Omaha never liked gold, yet he chose to invest in gold for the first time. Berkshire Hathaway bought shares of gold producer **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD). Even followers of the legendary investor saw the new position as out of character. The move seems to suggest that Buffett is waving a red flag and [hedging against a market crash](#).

Best year of gold

Warren Buffett's entry into mining stocks could be another savvy move because gold, along with silver, had its best year in 2020. Despite the unprecedented volatility due to COVID-19, the precious metal registered its best annual performance in a decade.

With fiscal policy pushing inflation up and U.S. real rates falling further, gold prices could hit new records in 2021. From \$1,901.60 on year-end 2020, it's heading toward \$1,950, according to UBS analyst Giovanni Staunovo. Gold has always been a safe haven whenever the market environment is uncertain.

The value of the world's most precious metal soared more than 25% during the pandemic. Prices retreated with COVID-19 vaccines injecting fresh optimism into financial markets, although the dollar's continued weakness supported gold into the year-end.

As of Q3 2020 (quarter ended September 30, 2020), Berkshire Hathaway owns 12,000 Barrick Gold shares. The gold stock's 2020 closing price was \$29, or a 22% total return. This \$51.56 billion gold and copper producer from Toronto, Canada, also pays a modest 1.58% dividend.

Top stock pick in 2021

Another American billionaire investor, Stanley Druckenmiller, is an aggressive gold investor. He sees Barrick Gold as one of the top stocks to buy in 2021. Druckenmiller, an all-time great hedge fund manager, believes the US dollar value depreciation will support gold price in the years ahead. With record-high average gold prices, Barrick Gold is reaping the gains.

Barrick Gold operates 16 sites in 13 countries and principally responsible for producing and selling gold and copper. The company captured the benefit of higher gold prices, and its operating cash flow increased by 80% in Q3 2020 over Q2, while free cash flow soared by 151%. Buffett is always a step ahead and didn't make a mistake investing in Barrick Gold.

Main gold drivers

Warren Buffett's main concern now is the economic war the U.S. economy faces. He hopes the support for small businesses extends on a large scale in 2021. Meanwhile, market analysts think that gold's performance in 2021 hinges on economies' eventual return to normalcy.

The main drivers are the weaker U.S. dollar and low real interest rates. Both factors are likely to provide support even with the ongoing vaccine distribution around the world.

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