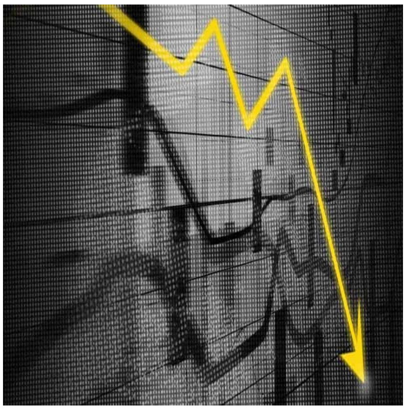

Warren Buffett: 2021 Is Ripe for a Market Crash

Description

Is Warren Buffett hedging against a market crash? The GOAT of investing made unusual moves last year that made even his loyal followers wonder. His first order of the day when COVID-19 struck was to unload shares in companies severely affected by shutdowns and border closures.

Buffett and his firm **Berkshire Hathaway** stayed on the sidelines for most of the pandemic-induced downturn. The company had a massive cash stockpile but did not rush to deploy the funds. Buffett's next moves were indeed uncharacteristic. Perhaps he's also holding more cash, because a market crash is coming in 2021 due to the second wave of COVID-19.

Shocking move

Buffett was idle in Q1 2020 due to the pandemic and oil price war. Berkshire Hathaway sold all its airline stocks and ditched its entire holdings in Canadian quick-service restaurant icon **Restaurant Brands International**. The ensuing investments were indeed uncharacteristic.

Berkshire invested in five large Japanese trading firms. The replacement of Restaurant Brands was **Barrick Gold**, a gold mining company. Note that Buffett had no interest in the precious metal ever since. Barrick Gold's total return in 2020 was 22%, while the restaurant stock lost by only 2%.

Gold is rising

On January 5, 2020, gold prices climbed to $1,950 on rising concerns that the new COVID-19 strain is highly transmissible. The $1,900 price a day before was an eight-week high for the precious metal. Analysts attributes gold's biggest advance in decades to a weaker American dollar and lower U.S. real yields.

The return to lockdowns is also dampening investors' sentiment in the stock market. A looming political showdown in the U.S. is adding to the anxiety. Gold has always been a haven asset in times of uncertainty, which Buffett realizes today. Demand has revitalized on account of the dim COVID outlook, despite the vaccine rollout.

Buffett's energy stock

Aside from Barrick Gold, Buffett's other Canadian stock is **Suncor Energy** (TSX:SU)(NYSE:SU). Despite the underperformance in 2020, Berkshire Hathaway is keeping the oil sands king in its stock portfolio. The energy stock lost its Dividend Aristocrat status after slashing its dividend by 55% at the end of Q1 2020.

Suncor Energy did not deliver the goods last year. Investors, including Buffett, lost 48%. As of this writing, the share price is $22, while the dividend yield is 3.93%. Berkshire Hathaway is the largest shareholder of Suncor (quarter ended September 30, 2020), with holdings worth US$234.8 million. Lyric Asset Management is the second largest with a US$107.8 million stake.

It seems that Buffett is right in holding Suncor Energy. Because of the West Texas shale revolution, 2021 could be a much better year for Canadian oil and oil sands. Even before the pandemic, Canada's oil sector was already in a rut due to severe pipeline shortages.

Industry analysts predict that 2021 is the comeback year for the oil sector. Wall Street investors are likewise optimistic about oil sands. **Goldman Sachs** and **Morgan Stanley** point out the industry and firms like Suncor can generate healthy cash flows.

Buffett's safety net

Last year, Warren Buffett's surprising moves included participation in tech startup **Snowflake's** IPO and positions in drug stocks. It's hard to tell where he will invest next. However, Buffett would instead hold cash now in preparation for a market crash.

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