Warren Buffett: His Actions Warn a Huge Market Crash Is Looming

Description

Market crashes are the times when fortunes are lost and made. A lot of an investor's relative success (or losses) in a market crash are tied to predicting the timing of the crash and recovery. To make educated guesses, investors often observe the moves that institutional investors market giants like Warren Buffett are making. This helps them deduce (with reasonable accuracy) in which direction the market might be moving.

Warren Buffett's **Berkshire Hathaway** has been sitting on a huge cash pile for quite some time now. He has used some of its liquidity to enter new positions after the market crash, but it's a small fraction of the cash pile. He says he isn't actively buying because he doesn't see anything good. But some of his actions are pointing towards another possibility, i.e., a second market crash.

A precarious position

Warren Buffett invested in a gold mining company. After decades of being strongly against investing in the shiny metal, Buffett's decision came as a shock to many. And even though he has significantly reduced his position in **Barrick Gold**, this move is considered an indication of an impending crash. And other factors endorse that notion as well.

The current stock market is aggressively overpriced, and the commodities, on the other hand, are significantly undervalued. It was the same situation in 1972 Nifty Fifty Stock Bubble and in 2000 when the Dot Com bubble burst. The current situation is ripe for a radical shift from stocks to commodities. And when that starts happening, the market might come crashing down.

The worst part is that unlike the March crash, which was relatively sharp and was followed by a swift recovery, the upcoming market crash is likely to be protracted. The recovery would be slow, and investors would be reluctant to tie their money to an uncertain market and a risky asset class.

A smart move

If a market crash is indeed coming, a smart move would be to invest in gold. It will hold its position and most likely grow at a decent pace as the market slumps. One way to expose your portfolio to gold is to invest in a powerful growth stock like **Abitibi Royalties** (TSXV:RZZ). This small, $319 million market-cap company has grown its market value by over 700% in the last five years.

Unlike other gold stocks that rode the recent wave of rising gold prices to a higher valuation, Abitibi has been a powerful growth stock for a long time. It also offers dividends, but its yield (0.7%) is paltry compared to its growth potential. Another point in Abitibi's favour is that it owns royalties in mining companies and operations and don't mine the metal itself.

By structuring the royalty deals for maximum profitability, Abitibi also manages to mitigate the risk. This is one reason why the company kept growing even in a strong stock market (which is a bit unusual for gold stocks).

Foolish takeaway

If another market crash is on the horizon, Buffett might be biding his time to buy amazing businesses at heavily discounted prices. And if you believe that a market crash is coming, it would be a good idea to improve your liquidity position, so when the time comes, you can imitate Buffett and buy good businesses and great prices.

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Date
2025/07/08
Date Created
2021/01/09
Author
adamothman