



Market Crash 2021: What Would Warren Buffett Do?

Description

The stock market is whipping itself into a frenzy. The **S&P/TSX 60 index** is trading at an all-time high. Tech and healthcare stocks have never been more valuable. However, there are signs that investors are getting too optimistic and a market crash could be imminent.

Investors may want to look to the godfather of modern investing for advice on how to tackle a market crash if it does occur.

Warren Buffett's strategy

Warren Buffett doesn't claim to predict stock market crashes, but he does make certain moves to prepare for them. When valuations are high, Buffett adopts a two-prong strategy to protect his portfolio.

First, he accumulates as much cash as he can. Buffett will often trim his largest positions when the stock market becomes pricey. Over the past year, he's done just that. By the third quarter of 2020, he had trimmed his position in **Apple** along with some of his largest bank holdings.

Buffett has also completely exited a major retailer and all airlines over the past year, as the pandemic engulfed the economy.

His other approach is to bet on underrated and beaten-down stocks. Buffett initiated a position in major American pharmaceutical companies and a Canadian gold miner over the past year. These contrarian moves deserve closer attention.

Buffett's gold bet

Buffett's apprehensions about a market crash and fiscal stimulus may have led him to add **Barrick Gold** ([TSX:ABX](#))([NYSE:GOLD](#)) last year. It's worth noting that this is the first time the Oracle of Omaha has ever bet on gold. The fact that his top choice is Canada's largest gold miner is fortunate for investors like us.

From January 2020 to May 2020, Barrick Gold's value surged 67%. That was the height of the "coronavirus panic." In other words, investors were retreating to gold as a safe haven when the market was crashing and the economy was plummeting.

Gold serves as a counterbalance to economic volatility. If the market crashes in 2021, its value could surge. That makes gold miner Barrick Gold a top pick for investors seeking a portfolio buffer this year.

Robust stocks

Another equally robust stock is utility giant **Fortis Inc** ([TSX:FTS](#))([NYSE:FTS](#)). Although Fortis stock briefly lost 23% of its value during the first half of 2020, it quickly bounced back. Since then the stock has remained fairly stable. Meanwhile, investors have enjoyed a juicy 3.9% dividend yield that beats out every "high interest" savings account.

Considering its business model, Fortis is just as safe as any bank savings account. Canadians will need to pay their utility bills even during an economic crisis and pandemic, which means the cash flows powering Fortis stock's dividend are secure.

Currently trading at just 19 times earnings per share and 1.37 times book value per share, I believe [Fortis stock](#) would be ideal for Buffett. It's certainly ideal for value-oriented retail investors.

Bottom line

Warren Buffett accumulates cash and makes contrarian bets when he's worried about a market crash, mitigating his downside risk. Investors should consider doing the same with safe stocks like Fortis.

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3. TSX:ABX (Barrick Mining)
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