Warren Buffett: Will the Markets Crash by 30% in 2021?

Description

Warren Buffett is one of the most closely watched individuals in the investment circle. The Oracle of Omaha has been a successful investor who has consistently outperformed the equity markets for almost six decades now.

In 2020, Buffett exited the airline sector and reduced his stake in banking, telecom and the financial services sectors. The multi-billion-dollar investor also surprised Wall Street when **Berkshire Hathaway** bought shares of Canadian mining giant **Barrick Gold** (TSX:ABX)(NYSE:GOLD) in the second quarter of 2020.

It's quite possible that Warren Buffett might not be behind several of these investment decisions. However, given the several exits in 2020 and Berkshire's huge cash pile, its quite clear that Buffett expects the markets to trade lower in 2021.

Warren Buffett indicator points to a market crash

According to the Oracle of Omaha one of the easiest ways to value the stock markets is by looking at the market cap to GDP ratio, which is also known as the Warren Buffett indicator. In case this ratio is over 100%, the markets are said to be overvalued and vice versa.

As of January 12, 2021, the market cap to GDP ratio for the S&P 500 is a monstrous 190.4%. It means U.S. stocks are the most overvalued since the financial crisis of 2008-09. For global markets this multiple is over 120% as well which suggests investors should experience a sell-off in 2021.

We can see that the stock market is not in sync with the economy. The unemployment rate for Canada is still high and consumer demand has been pushed northwards due to federal benefits disbursed to millions of residents.

Companies across multiple sectors such as energy, airlines and hospitality are still grappling with mounting losses and it will take another year for GDP numbers to reach pre COVID-19 levels. Further, a weak U.S. dollar and the second wave of COVID-19 infections is likely to weight heavily on the stock market in the near-term.

Berkshire Hathaway ended Q3 with close to US$150 billion in cash, which means Warren Buffett is ready to cash-in when markets turn turbulent. So how should you invest if the equity markets trade lower in 2021?

Gold mining stocks seem a perfect hedge

Investors can take a leaf out of Warren Buffett's investment manual and look to buy recession-proof companies such as Barrick Gold. The prices of gold is inversely related to the U.S. dollar and interest rates. With interest rates near record lows, investors will look at alternate asset classes for inflation beating returns.

A sluggish macro-economy will be the key driver of gold prices which will hugely benefit mining companies such as Barrick Gold. This company has reduced its net debt by 25% on a sequential basis in Q3 to $1.4 billion and does not have any major debt maturities for another 13 years.

Barrick Gold also sold off $1.5 billion in non-core assets allowing it to generate significant cash flows and continues to improve operating efficiencies of its core cash generating assets.

Barrick Gold stock is trading at an attractive valuation with massive upside potential, especially if the market crashes again this year.

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