Warren Buffett Warns: Market Is on the Verge of a Terrible Crash

Description

The world's top investor Warren Buffett has been waiting for a big market crash for over a year now. In many of his recent interviews, the 90-year-old investing legend has highlighted how he finds most stocks from various industries and sectors to be overvalued at the moment.

Warren Buffett's investment strategy

It might take many years for anyone to understand Buffett's investment strategy. But in a nutshell, he always buys stocks during a market crash. He also keeps making some significant changes in his portfolio when he believes the market is headed for a crash.

Buffett has been trying to limit his exposure to high risk and cyclical industries lately. For example, **Berkshire Hathaway** — his investment firm — sold all its airline industry stakes last year. The company also cut its open positions in the banking sector — one of the worst affected sectors by an economic downturn. These steps could be considered Buffett's early hints toward an upcoming market crash, which could be one key reason why he has been adjusting his portfolio lately.

On the verge of a terrible market crash

The stocks market saw a much better than expected year in 2020. While the [COVID-19 pandemic](#) raised challenges for most big companies, it worsened the struggle for survival for many small businesses.

Nonetheless, the market continued to rally as a handful of tech companies saw an increase in their product and services demand during the COVID-phase. But surprisingly, the shares of many companies that were not at all directly benefitting from the work-from-home culture also performed decently last year. A rally in such shares' has given birth to a bubble in many industries that might burst anytime now.

Prepare for a market crash now

When the market is rising, no one thinks about preparing for a market crash — except a few wise investors like Warren Buffett. That's what differentiates a great investor from an ordinary investor. Rather than going with the chaotic market noise about how well the market is doing right now, pay attention to keeping your investment safe.

For example, the **Royal Bank of Canada**'s ([TSX:RY](#))([NYSE:RY](#)) has remained mixed to negative in the last three quarters in a row. But its stock didn't fall much in 2020. In fact, it ended the year in positive territory. In the October 2020 quarter, its revenue [fell](#) by 2.4% year over year to $11.1 million — also worse than its revenue of $12.9 billion in the previous quarter.

The largest Canadian bank's net interest income has been declining for the last couple of quarters. But investors seemingly are busy cheering a temporary positive trend in capital markets and treasury services segment earnings. In the latest reported quarter, its earnings from personal and commercial banking fell by 21% — which I don't consider a big positive sign from any aspect.

In the coming months, banks — including RBC — are likely to face increasingly large business loan defaults as many small to medium businesses are still struggling to survive. That's why I consider Buffett's decision to cut banking sector stakes in his portfolio wise.

Bottom line

Whether or not you start preparing for a market crash, multiple market indicators are pointing towards it at the moment — including Buffett's recent investment moves. However, a market crash is not necessarily a bad thing, as it creates an opportunity for investors likely Buffett to buy great stocks cheap. That's why it's a good idea to start shortlisting stocks you would buy in a market crash and cut your risky open positions right now.

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