



The Warren Buffett Indicator Just Hit a Huge Sell Signal

Description

Before the crash that led to the 2008 financial crisis, the global stock markets' market cap topped 120% of GDP. Warren Buffett monitored the events then and is watching things unfolding today. The GOAT of investing has a barometre that somehow signals a market correction.

According to *Bloomberg* data, the "Buffett Indicator" showed that the global stock market is overvalued relative to the world economy. On January 10, 2021, the needle was at 121% — a 13-year high. Buffett introduced his indicator in 2001 and described it as probably the best single measure of where valuations stand at any given moment.

While Buffett's gauge is far from perfect, market observers sound the alarm bells. It could also mean a huge sell signal [before the next market crash](#) happens.

Anticipating a market crash?

The **Berkshire Hathaway** chief is always at the forefront of falling markets and goes on a buying spree every time. Last year was an exception. His investment firm [did not make elephant-sized acquisitions or significant purchases](#) in the stock market.

COVID-19 turned the world upside down and sparked widespread economic restrictions. Governments and central banks did not want their ships to capsize. The unprecedented stimulus packages artificially depressed GDPs. Stock markets are still standing on shaky ground, notwithstanding the vaccine rollouts.

Despite the Buffett Indicator reading, the legendary investor will not venture into guessing how current events will play out. He once said, "I don't think I can make money by predicting what's going to go on next week, next month, or in the next 10 years."

Long-term investing

When Buffett invests, he invests for the long term. A classic example was the more than \$1 billion position in **Coca-Cola** in 1988. Berkshire Hathaway owns shares of the beverage stock until today. Buffett and Charlie Munger, his right-hand man, will not panic and will stay the course when the market is tanking.

However, one particular investment in 2020 seems odd, if not intriguing, to loyal followers. A new position in a gold stock seems to suggest Buffett is looking for a safety net.

Intriguing investment

The precious metal has never been on Buffett's radar, but Berkshire Hathaway bought 21 million shares (US\$564 million) of **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) in the second quarter of 2020. There was a mad rush by investors to a safe-haven asset. After the stock purchase, Berkshire became the 11th-largest shareholder of Barrick Gold.

In the next quarter, Berkshire trimmed its position in Barrick by nine million shares. Because Buffett can influence the market, the shares went on a downward trend since. As of January 18, 2021, this gold stock trades at \$29.74, which is 20.9% lower than the closing price at the end of the third quarter.

Barrick Gold remains a high-quality investment. In 2020, the total shareholder return was around 27%. If you stretch the gains five years back, it was 154%. Furthermore, the company reported a record \$1.3 billion free cash flow in Q3 2020, the highest for a quarter.

Tailwind for gold

Buffett's gold stock is trading at a depressed price relative to its long-term range. I don't think Berkshire Hathaway will trim its holding further in 2021. The tailwind for gold is the softer U.S. dollar and the historic low interest rates the Biden administration will maintain.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

PARTNER-FEEDS

1. Business Insider

2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

Tags

1. Editor's Choice

Date

2025/08/26

Date Created

2021/01/22

Author

cliew

default watermark

default watermark