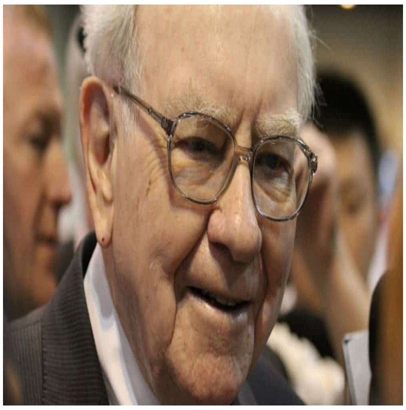

Is Warren Buffett Already Planning for the Next Market Crash?

Description

Warren Buffett has always held a large amount of cash. However, in 2020 his cash pile reached a record level of around $137bn.

Alongside **Berkshire Hathaway's** purchase of gold miner **Barrick Gold**, this suggested to some investors that the Oracle of Omaha was readying himself for the next stock market crash.

However, subsequent sales of shares in the gold miner and a long history of holding vast amounts of cash indicate that Buffett is permanently ready to capitalise on the next market downturn.

Following a similar approach could be very worthwhile for all investors. By holding cash, and identifying high-quality companies ahead of a bear market, it is possible for an investor to use market cycles to their advantage.

Warren Buffett's large cash resources

Warren Buffett is likely to hold cash for two main reasons. The first is that it provides peace of mind. An investor who is not fully invested is more able to overcome unforeseen financial challenges that would otherwise force them to sell shares. For example, they may lose their job or have unexpected housing repair costs that require immediate access to cash.

The second reason to hold cash is to capitalise on market downturns. The stock market is almost inevitably going to experience a major crash over the coming years. After all, its past performance shows that the market rally experienced in the second half of 2020 will eventually run out of steam. Some crisis or threat will cause investor sentiment to deteriorate, which will produce significantly lower stock price valuations.

Investors such as Warren Buffett will be in a financial position to capitalise on them. As the 2020 stock market crash showed, the window of opportunity to buy companies at low prices can be relatively short.

Identifying high-quality companies ahead of a market crash

As well as following Warren Buffett in holding large amounts of cash, identifying high-quality companies ahead of a market crash could be a sound move. For example, at the present time an investor may be able to find a number of businesses that have solid financial positions and competitive advantages. However, they may trade at prices that lack a margin of safety.

Keeping tabs on the financial performance and developments of such companies can be a sound move. It will enable an investor to be in a position to understand a business comprehensively so that they can quickly react to a short-term decline in its share price. This may allow them to buy high-quality companies at low prices. Over the long run, such a strategy can be highly effective in generating market-beating returns.

Planning for the next market downturn

Warren Buffett appears to be in a constant state of preparedness for the next stock market crash. His large cash position means he can invest quickly and decisively in a market downturn. An investor who puts themselves in the same position through holding cash and identifying high-quality companies today could generate impressive returns in a stock market rally.

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Date
2025/08/25
Date Created
2021/01/26
Author
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