



The Stock Market Generation Gap: Warren Buffett vs. Hedge Funds and Redditors

Description

Technology is changing by leaps and bounds. People are building their ideologies, and this is widening the generation gap. There is a vast gap in the way your parents earned money, the way you earn money, and the way your children earn money. The stock market is witnessing this generation gap where value, growth, and momentum is driving stock prices.

The stock market generation of Warren Buffett

Warren Buffett turned 90 last year. Even at this age, his wealth is nothing but growing, despite the expensive mistakes and billions of dollars of losses. He is benefitting from staying invested in fundamentally sound companies and exiting companies with no future growth potential.

Last year, Buffett made some big investment moves. He sold many bank stocks and all airline stocks, purchased more shares of **Bank of America**, and purchased new stocks in gold, cloud services, and pharma companies. He also made his biggest acquisition since Precision Castparts in 2016: he [acquired](#) **Dominion Energy's** natural gas pipeline business for US\$8 billion.

All his investments are long-term bets that have intrinsic value. These stocks are showing fundamental growth. Buffett believes in buying and holding equity and preferred shares for at least 10 years.

The stock market generation of hedge funds

Over time, the stock market introduced many complex instruments like futures and options. These instruments allow investors to hedge the risk of a decline in stock price through short-selling. An instrument that started as a hedge became a money-minting instrument for hedge fund managers.

Hedge fund managers are known for trading actively and making risky bets. In the fourth quarter of 2020, several hedge fund managers bet against the economy and poured billions of dollars in Bitcoin. They also shorted some poorly performing stocks like **GameStop** and **BlackBerry** to make money

from their falling prices.

Buffett refrains from such a gamble where the volatility has no plausible explanation. He despises Bitcoin, as it has no intrinsic value. How will you value digital currency? It doesn't have revenue or a profit or even business. While Buffett is right on his part, there is no denying that some hedge fund managers made billions investing in Bitcoin.

The stock market generation of Redditors

If you think Bitcoin is confusing, this year Redditors shocked even the hedge fund managers. The subreddit WallStreetBets assembled thousands of retail investors and targeted stocks that hedge fund managers shorted. Redditors flocked to buy these stocks, artificially raising their stock prices by over 100% in less than a week.

Hedge fund managers used [a short squeeze](#) to contain losses, which saw Redditors earn more than 200% returns in three to four days. Here again, the stock prices did not reflect the intrinsic values of companies.

Use the generation gap to your leverage

The way hedge funds and Redditors made money is not sustainable. Their ways don't show the state of the economy or the company's growth potential. I still support Buffett's fundamental investing style, which won't make you lose sleep. Many gained and lost during the pandemic, the Bitcoin frenzy, and the short squeeze, but Buffett continued to gain.

When you build your portfolio, keep a major portion of your money in Buffett stocks and a small portion in Bitcoin and other speculative bets. You can get exposure to Bitcoin volatility for less than \$5 through **Hive Blockchain Technologies**. Hive is a blockchain infrastructure company that mines Bitcoin and Ethereum at its data centres.

For the bigger portion of your portfolio, you can consider a Buffett stock like **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)). Buffett made his biggest investment in a natural gas pipeline operator, and Enbridge is in the same business. It is North America's largest pipeline operator and transmits oil and natural gas. The energy market is undergoing a transition to clean energy, and natural gas will play a major role in this transition. Enbridge is transitioning with the industry by increasingly investing in natural gas and clean energy infrastructure. It will continue to pay incremental dividends in the coming years.

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