Warren Buffett’s “Greed” Indicator at All-Time Highs

Description

Warren Buffett’s favourite market gauge of how overvalued or undervalued stocks are just hit an all-time high. What is this gauge? Buffett compares how big the stock market is to the size of the U.S. economy. Right now, the total market capitalization of the U.S. stock market is now 195% of U.S. GDP. This means that stocks are now worth roughly two times the total output of the U.S. economy.

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Many have suggested that this could indicate a market crash is on the horizon. After all, stocks have never been this richly valued. Never.

In fact, the stock market prior to the dot-com bubble crash only ever hovered around the 1.3 times GDP level. In other words, stock prices are roughly 50% higher than right before the dot-com bubble burst.

Here’s what this means for investors, and what Warren Buffett is doing right now to defend against a market crash.

He’s not selling everything, for starters

Investors considering the “sell-everything-now-and-wait-for-the-crash” strategy should listen up. Warren Buffett is a long-term buy-and-hold investor. Selling stocks is a losing game long term, and most seasoned investors know this. However, having plenty of cash on the sidelines to buy the dips is Warren Buffett’s mantra.

Being prepared to buy the dips that come is perhaps the best way to grow one’s wealth over time. If one thinks stocks are overvalued, keeping those cash dividend payments in the account and patiently waiting is a good idea. Doing this, while keeping one’s capital invested is the key. Those who trimmed during the last market correction underperformed those who held steady and bought through last March.

Getting defensive is key now

Warren Buffett's recent portfolio additions were extremely defensive. The Oracle of Omaha got into gold, buying a stake in Canadian gold miner **Barrick Gold** (TSX:ABX)(NYSE:GOLD) last year. He trimmed airlines and financials, orienting his portfolio away from cyclical plays. Such moves appear to be the way to go right now, and I have to agree with this strategy. After all, who's going to argue with one of the greatest investors of all time?

Personally, I think gold miners like Barrick are undervalued right now. Additionally, I think these stocks are due for an upward revaluation over time. Gold miners relative to the price of gold are at their cheapest level in approximately 30 years. Indeed, investors looking to find value in today's stock market should look to pockets of the economy displaying value right now.

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