



## Warren Buffett: Make Sure You Have Cash for a Potential Correction

### Description

Warren Buffett doesn't like to time the market. But if you pay attention, you can guess when he's feeling bearish.

One of the best indicators is how much cash **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) is holding. If it's fully invested, Buffett's likely feeling optimistic. If cash is piling up, danger may be ahead.

What is Berkshire's cash balance telling us now?

### Cash balances are hitting new records

Right now, Buffett seems to be very cautious about the market. Berkshire is piling up bigger cash balances than ever before.

"Investors are awaiting Buffett's annual letter to shareholders for clues as to how the 90-year-old doyen of the investment world plans to use Berkshire's roughly \$146 billion cash pile," [reported](#) the *Financial Times*.

This cash hoard has been generated through several sources, including organic profits and buyouts. But the biggest contributor has been asset sales, something investors don't normally do unless they're worried about valuation levels.

"Berkshire has cut holdings in several bank stocks, selling the remaining shares it held in **JPMorgan Chase**, **PNC Financial Services** and **M&T Bank** in the fourth quarter. The company also cut its position in **Apple** by 57.2m shares," the *Financial Times* highlighted.

Buffett did buy some stocks — including **Verizon** and **Chevron** — but analysts stressed how these companies were largely considered safe havens. They're the type of stocks you'd buy if you had too much cash but didn't want to assume much risk.

"Both Verizon and Chevron are available with a considerable margin of safety — limited downside risk

while producing considerable income and moderate appreciation potential,” explained one portfolio manager. “At worst, they’re a relatively safe parking place for more than \$12 billion of Berkshire’s growing cash balance.”

## Does Buffett think a crash is coming?

It’s not hard to read between the lines here. Buffett recently liquidated billions of dollars in stock, including some of his most valued positions.

“**Wells Fargo** has consistently been one of his biggest positions, through thick and thin. He has defended the company during past market downturns,” I’d [noted](#) last year. Even so, Berkshire’s position was slashed by two-thirds.

I expect Buffett to be a major buyer if markets dip. What could he buy? Following his investments in tech firms like **Amazon** and Apple, it’s not hard to see him piling into **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)).

Shopify is one of those stocks that is perpetually expensive. Shares trade at 55 times sales. It’s proven worthy of that premium, however, with shares up 4,600% since 2015.

Shopify’s e-commerce platform is targeting one of the biggest markets in history: digital retail sales. Its runway for growth should persist for decades. Management is incredibly savvy, with a proven record of execution. The only thing that’s not perfect is the price.

Buffett recently admitted to being wrong about tech darlings like Amazon. I don’t expect him to make the same mistake again.

Could a crash be around the corner? No one knows for sure, but Buffett is looking cautious. There’s no shame in maintaining some cash to buy all-star stocks like Shopify should valuations plummet.

### CATEGORY

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2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. NYSE:SHOP (Shopify Inc.)
4. TSX:SHOP (Shopify Inc.)

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