



## Warren Buffett: A Bubble Could Be Forming

### Description

Warren Buffett released his letter to shareholders Saturday. In it, he had some harsh words for the corporate world. Hitting hard at investing “illusions,” he said that many modern conglomerates will turn out to have been houses of cards. Ultimately, his comments point to the possibility of a dangerous bubble — not in stocks as a whole, but in certain overvalued sectors.

### The business emperor has no clothes

The most revealing quote in Warren Buffett’s 2020 letter to shareholders was this:

“...many business ‘emperors’ are found to have no clothes. Financial history is replete with the names of famous conglomerateurs who were initially lionized as business geniuses by journalists, analysts and investment bankers, but whose creations ended up as business junkyards.”

It’s not hard to imagine who Buffett is alluding to here. 2020 witnessed a flurry of activity in IPOs, some of which were offered at exorbitant prices. **AirBnB**, for example, opened at more than three times its asking price — which its CEO thought was already steep. Related to that has been an “acquisition frenzy,” not as well publicized but prominent in some industries like cannabis. It is widely thought that cannabis companies paying too much money to buy out their rivals was one of the factors behind their collapse post-legalization.

### A shot at Elon Musk?

In some ways, Buffett's comments on "business emperors" look like a shot at Elon Musk. Certainly, if anybody in today's business community is being hyped as "genius" in the media, it's him. The press hangs on his every word, which has played a major role in **Tesla's** soaring stock price. He definitely sounds like the "geniuses" described in Buffett's quote. However, Buffett has praised Musk in the past. So, it's hard to say what his true feelings are.

## What Warren Buffett DOES like

Based on his comments, it looks like Warren Buffett thinks a stock market bubble is forming. He has cautioned us on overhyped business empires, spoken out about excessive trading frequency, and advised against buying into bubbles. All of these comments point in one direction. And Buffett is not the only big investor who has warned of a market bubble recently. Ray Dalio also spoke out, saying that we're seeing a "diverged" market, with overvalued tech stocks on the one hand and undervalued opportunities in other sectors.

He and Buffett both agree: value is where it's at these days.

For example, Warren Buffett currently owns a large position in **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) stock. Like many energy stocks right now, it's arguably undervalued. It trades for just slightly more than tangible book value, and low multiples relative to cash flow. To be sure, SU stock is cheap for a reason. Its net income was negative for every single quarter of fiscal 2020. Yet its cash flow metrics, while down year over year, were positive. Also, oil prices are currently [above what Suncor needs to break even](#). Put simply, this stock has plenty of valuable assets and a sound balance sheet, providing the possibility of it surging forward in the years ahead, after the COVID-19 pandemic ends. That doesn't mean you should run out and buy Suncor stock. But for Warren Buffett, at least, it makes SU stock a promising one.

### CATEGORY

1. Dividend Stocks
2. Investing

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