Warren Buffett Sounds the Alarm: What Should You Do?

Description

If you follow Warren Buffett and try to learn from his investment strategy, one thing you might have noticed is that Buffett looks at the big picture. He doesn't analyze companies and the market in a vacuum, but takes other factors into consideration as well. This is probably one reason he is so fond of the Buffett Indicator, which takes an expansive view of the stock market's valuation.

And that's something that Michael Burry has picked up from the world's most revered investor.

Michael Burry, Warren Buffett, and inflation

Michael Burry came to prominence through the book and then the movie: *The Big Short*. Burry was one of the first people to notice and capitalize on the sub-prime mortgage crises (which resulted in one of the worst housing market crashes) and the Great Recession. This proved that, like Buffett, he has the potential to see what others might not.

And that's why, when Burry builds on Buffett's work and warnings, investors should listen. Burry mentioned Buffett's 1980 letters to shareholders, where he discussed the dangers of inflation. Buffett considers inflation a "tax on capital," an implicit tax that eats away investors' earnings the same way that mandatory taxes on dividends and profits do.

Burry believes that the same thing is happening now and that the 1980 letters are just as relevant today and can help guide investors to security and help them see what's about to come. He says that inflation keeps rising and the "worth" of tomorrow's investment earnings will be lesser than today's. This casts a very dark shadow on the long-term prospects of an investor's holdings.

Burry believes that the U.S. might experience hyperinflation akin to what Germany experienced in the 1920s.

The solution?

In the letters around that time, Buffett urged shareholders to remember inflation when their investments are performing well. He believed inflation, coupled with the other taxes, determines how much you are actually making from an investment.

So, if inflation could ruin the U.S.'s stock market, with Canadian stocks feeling the tremors as well, what can you do about it? While it's not a complete solution, one thing you might consider doing is selling your volatile investments and look into a solid defensive stock that might be able to survive the impact of inflation on the market in the long run.

One such stock that should be on your radar as both a defensive a long-term growth stock is **Metro** (TSX:MRU). The supermarket company has about 950 food stores and 650 drug stores, two retail businesses that tend to thrive regardless of the market conditions since they cater to two basic necessitates: sustenance and health.

This is probably the reason the company's revenue and gross profits kept growing in 2020. Metro has a 10-year CAGR of 15.5%, and if it can sustain it for even two or three more decades, it might prevent you from inflation's clutches. Another reason to consider this stock is its stellar dividend history. The company has grown its dividends for over 26 years, and it's currently offering a modest yield of 1.92%.

Foolish takeaway

Both Warren Buffett and Michael Burry are warning people about the dangers of inflation. It should be noted that the last time Burry saw something that others didn't, he was right. If he is going two for two with this one, you might consider revising your long-term investment strategy and revamping your portfolio to survive what might be about to come.

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