



As Markets Touch Record Highs, Warren Buffett Looks to Be Wary of Valuations

Description

Legendary investor Warren Buffett has really not been a part of the recent rally. The broader markets have shown a remarkable bounce-back rally since last year, but he has largely been a net seller of stocks in this period. In Q1 2021 as well, Buffett-led **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) stayed away from the rally and continued to remain cautious.

Warren Buffett and Berkshire Hathaway

Institutional investors release their stock holdings through 13F filings after 45 days of the quarter-end. Berkshire Hathaway's 13F filing is unquestionably one of the biggest events across the streets, which recently disclosed its trades during Q1 2021.

Remarkably, Berkshire Hathaway trimmed its stake in the energy and financial sectors in Q1 2021. Top Canadian energy giant **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) was the sole Canadian stock in Berkshire's portfolio, which was first bought in Q4 2018. However, the Oracle of Omaha entirely got rid of it during the quarter. He also sold a large chunk of **Chevron Corporation** in the same quarter initiated in Q4 2020.

Notably, a significant trimming of its exposure to energy suggests a gloomy outlook for the sector. The legendary investor might have a not-so-bright view on crude oil as it has more than doubled since last year.

Berkshire Hathaway's cash hoard

The stock portfolio of Berkshire Hathaway was valued at US\$270 billion at the end of the quarter. Interestingly, it is sitting on a cash balance of more than US\$145 billion as of Q1 2021. BRK [sold](#) almost US\$6.5 billion of stocks and bought US\$2.6 billion of stocks during the first quarter.

This cash balance has notably swelled in the last few years as Buffett ran short of worthy opportunities. He has been looking for an "elephant-sized acquisition" for the last few years. However, the famed

value investor has been unable to deploy the cash amid rallying markets. Another reason for having such a massive cash balance could be to provide padding to Buffett's successor.

During the pandemic-led epic crash last year as well, Berkshire Hathaway was defensive and stayed on the sidelines. Since then, markets have displayed enormous vigour amid the re-opening hopes and economic recovery. The **S&P 500** is up almost 62%, while the **TSX Composite Index** has soared around 45% since last March.

While [Warren Buffett](#) deeply advocates long-term investing, Berkshire Hathaway has seen plenty of short-term trades recently. Stocks like **Wells Fargo** and **Coca-Cola** have been there in Berkshire's holdings for decades. But it reduced stake in some top names such as Chevron, **Barrick Gold**, and **AbbVie** in less than a year. The short-term trades could be from Buffett's investment managers Todd Combs and Ted Weschler.

Bottom line

Warren Buffett's play-safe approach does not seem totally out of context. While stocks might continue to rally post-pandemic, higher inflation, plug on free money, and uneven economic recovery globally pose a serious threat to markets.

Only time will tell whether Buffett's caution is warranted or not. But, with that cash hoard, he will certainly have the last laugh if markets take an ugly turn from here.

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