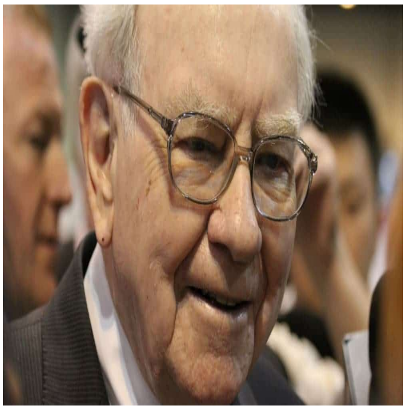

Warren Buffett Is Unfazed by the Market Rally

Description

Berkshire Hathaway is sitting on a $128 billion cash pile. Warren Buffett didn't buy stocks during the market crash. He made no move during the recent market rally either. Warren Buffett said he would let everybody know when he invests his cash pile.

A stock market crash is bad news for investors. However, for a company of Berkshire's calibre, which focuses on the next 20 years and has hundreds of billions of dollars, a drop in stock prices is good news. Buffett himself confirmed this during an interview with CNBC, declaring:

"We are buying businesses to own for 20 or 30 years. We buy them in whole, we buy them in parts, and we think the 20- and 30-year outlook is not changed by the coronavirus. We are a net buyer of stocks over time. Most people are savers, they should want the market to go down. They should want to buy at a lower price."

Warren Buffett is waiting for better opportunities

Buffett has made his fortune by buying quality stocks at low prices. If he's waiting before buying, it's probably because he thinks that stocks are not cheap enough.

Warren Buffett's favourite metric to determine if stocks are fairly valued is the market capitalization to GDP ratio, which is also known as the Buffett indicator. It's a measure of the total value of all publicly traded stock in a country, divided by that country's GDP. It's used to assess whether a country's stock market is overvalued or undervalued, compared to an historical average.

This ratio is trading at its 94th valuation percentile even as unemployment is skyrocketing and uncertainty surrounding coronavirus still reigns.

Buffett is likely waiting for another market sell-off to lower stock valuations to a level he's comfortable buying.

Buffett profits from crises to buy quality stocks at cheap prices. He buys companies that sell essential products or services. He chooses the right opportunities to buy and does so at the right time.

In 2009, Buffett bought quality businesses like **Johnson & Johnson** and **Walmart** for dirt-cheap prices. The stock market lost more than 50% of its value during the financial crisis. Buffett profited from the strong market rally that followed.

A market crash could follow the market rally

The Dow and the TSX have “only” crashed by about 37% from peak to trough. They are now roughly 20% down from the peak after the market rally. Billionaire Paul Singer’s Elliott Management said global stocks could fall 50% from February highs. Buffett is probably waiting for a deeper crash to buy stocks at cheap prices.

He said: “Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble.”

It’s probably not raining gold now. But if the stock market goes down further, gold might be raining and Buffett will probably put out the bucket.

A market crash can provide opportunities to make big money if you invest wisely like Warren Buffett by buying quality businesses at cheap prices.

Dollarama is one of those quality businesses we have here in Canada. The discount retailer is still fairly expensive, with a price-to-earnings ratio of 24.2. The P/E is even higher than it was a year ago. A deeper stock market crash will give you the opportunity to buy Dollarama or load up on more shares at a cheaper price.

The hard thing is to determine the right time to buy. You should avoid trying to time a market bottom. It’s too difficult. The right time to buy stocks is simply when they reach prices you’re comfortable with.

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1. Coronavirus
2. Investing

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2. warren buffett

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