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The Oracle of Omaha Wants Out (Part 2)

But what are we to make of Buffett's growing pile of cash. Buffett was quoted as saying at the Berkshire annual meeting this year: "We haven't done anything because we haven't found anything to do." With the sharp decline in stock prices in March, could he not find one compelling investment? Meanwhile, in February he was relishing at the prospect of lower stock prices. Buffett told CNBC regarding the nascent stock market decline: "That's good for us actually — we're a net buyer of stocks over time." Buffett continued: "Who wouldn't rather buy at a lower price than a higher price?"

Buffett has a long and storied track record of taking advantage of stock market meltdowns to deploy cash for the benefit of Berkshire investors. Perhaps the speed of the recent snap back in the stock market caught Buffett off guard. But deploying large sums of cash at record speed has historically been his trademark. Thus, we believe that there may be something else to this story.

We believe that Buffett deems this pandemic as a market shock that has no historical analog. Therefore, he is

taking a much more disciplined approach to deploying his cash hoard. Yes, there are many companies whose stock prices have fallen 50% or more from their highs. While many of these companies will survive and thrive in the long term, the road to an earnings recovery is likely to be tortuous.

To illustrate further, Buffett has long been fond of financial stocks, with large positions in Wells Fargo, Bank of America and American Express. Financial stocks on balance have seen some of the sharpest declines in 2020. But these companies also face a host of headwinds as a result of the Covid-19 pandemic. Low interest rates are depressing margins. Surging unemployment will likely result in large increases in credit card and auto loan losses. Many commercial

loans are also in danger of defaulting, particularly in industries that have been shut by government order.

To be sure, we do not believe that Buffett has turned bearish. Nor do we believe that he has become a market timer in his old age. Rather, we believe that Buffett sees the effects of the Covid-19 pandemic as an extended secular headwind to the global economy. Heightened uncertainty justifiably sets a higher bar for investing in stocks. So despite the fact that the stock market has declined, Buffett does not believe the decline so far has been sufficient to offset the attendant risks and uncertainties.

Does Buffett's seemingly dimmer view of the stock market and the economy change our view of the stock market?

(to be continued)

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