

Cashing in on Cash During Market Uncertainty

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Market Insights

In my last blog, I sought possible reasons to explain why Warren Buffett was not an aggressive buyer of stocks during the market plunge in March. Some speculate that this could be a sign that Mr. Buffett has become increasingly bearish on the stock market. Moreover, in the past week, we heard a chorus of famed investment managers like David Tepper and Stanley Druckenmiller, calling the stock market overvalued. Some may wonder whether these events have changed our view of the stock market.



To answer that question, let me first point out that Buffett's Berkshire Hathaway still maintains multi-billion dollar stakes in a number of large U.S. blue chip corporations. There is little indication that Buffett believes the stock market is overvalued. I believe that Buffett's actions (or lack thereof) suggest that he believes that the increasing economic uncertainties in the wake of the pandemic are such that it is prudent to maintain elevated cash levels for now.

Now I know many investors who are fundamentally against allocating any part of their portfolio to cash, believing that it has no strategic value. To be sure, cash or near cash investments (e.g. money market funds, Treasury Bills) yield next to nothing these days.

But we see cash as having strategic value, especially when macroeconomic uncertainty is unusually high. We never really have a hard target for cash allocation in our managed portfolios. When we sell an investment, we are unlikely to redeploy the

proceeds immediately, unless there are compelling new opportunities in which to invest. That does not make us bearish. Rather, we have become increasingly mindful of the challenges that the pandemic presents to the economy and the stock market. Thus, we expect our client cash levels to remain elevated for an indeterminate period of time.

Aside from the human toll as a result of the pandemic, central banks and policymakers across the globe have taken unprecedented fiscal and monetary policy actions. Those actions will likely prove to be helpful in the near term. But the unintended consequences of these actions could surface over time and may last for many months and years.

In summary, we are still bullish on America as is Warren Buffett. Mr. Buffett recently cited the many formidable challenges our country has faced in its history. The long-term performance of the economy and the stock market illustrates our ability to withstand and recover from adversity. "Nothing can stop America when you get right down to it. Never bet against America," Buffett said.

We agree with Mr. Buffett that this country will successfully emerge from this pandemic and the stock market will ultimately recover and make new highs. At the same time, an extra dose of caution could be warranted until we have better understanding of the timing and pace of economic recovery.

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