



# Why Did Warren Sell Banks for a Gold Stock?

## *Debunking two (possible) explanations for the Oracle's latest stock moves*

In just the first three weeks of July, Warren Buffett spent over \$10 billion of Berkshire Hathaway's cash stockpile by:

- Buying the natural gas transmission pipelines and storage assets from Dominion Energy for about \$9.7 billion
- Buying an additional 33.9 million shares of Bank of America at a total cost of just over \$813 million.

About a month later, Berkshire's latest 13F filing revealed that Warren has been selling bank stocks like Wells Fargo and JPMorgan Chase and buying gold-stock Barrick Gold Corp.

Since Buffett has long been a fan of bank stocks and a very loud critic of gold, is this a red flag that the Oracle of Omaha sees trouble ahead for the U.S. economy?

Consider these past statements from Warren on his thoughts on gold from a speech he made at Harvard University in 1998:

- "Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

Or this one from 20 years later, when he wrote to Berkshire's shareholders in his annual letter in 2018:

- "If you bought gold at the time of Christ and you figured the compound rate on it, it may be a couple tenths of 1%."

So, why did Warren sell out of two banks and buy a gold-stock?

### **Debunking Two (Possible) Explanations**

**Reason #1:** Buffet is nervous about the current and future state of the economy. If Warren was worried about current and future economic conditions, moving to gold might make sense as a possible hedge. Especially if rates continue to stay low (which hurt bank stocks).

But consider that the price of gold has skyrocketed since the beginning of COVID and is trading at all-time highs. Does that seem consistent with Warren's value approach to investing?

Further, it's true that Warren slashed his stake in JPMorgan by over 60% and his stake in Wells Fargo by over 25%. But if he was sour on bank stocks in general, would he have really bought more than \$2 billion of Bank of America stock since July 20<sup>th</sup>? Could be that he sold some bank stocks for stock-specific reasons instead?

**Reason #2.** The decision to buy Barick Gold Corp. might not have even been on Warren's radar. Think about this for a second: Berkshire's \$625 million dollar position in Barrick represents less than ¼ of 1% of his holdings. Is that really a big hedge?

## Remembering Who Warren Is

In a nutshell, we don't know why Warren made the decision to sell away from some bank stocks and buy Barrick Gold. But what we do know is this: Buffett is a value investor – a bargain hunter searching for stocks that are valuable but not recognized as being valuable by most other buyers.

Further, Buffett isn't especially interested in how the market treats his new stock. He chooses stocks based on the overall potential of the company to generate earnings. He buys and holds stocks and companies for the long term. His primary concern is how well the company can make money for its shareholders. If the company does well, of course, its share value will also increase.

Essentially, Buffett waits until a great opportunity presents itself, as opposed to wheeling and dealing all day with his holdings. His investment philosophy reflects his practical, down-to-earth, Nebraska attitude about life in general. He lives in a nice house, not a mansion. He is one of the wealthiest people in the world, but he doesn't take a limousine to work.

## Is Value Investing Right for You?

Buffett's strategy requires patience, a long-term focus, and buying low (the value investing approach). The first thing to know about long-term, value investing: It's very difficult to determine whether a company is undervalued by the market, with greater intrinsic worth than most investors see. To make good decisions, you have to be able to analyze a massive amount of financial data, the market for a company's product, its management, and the future.

Recognizing this difficulty, Buffett advises other investors not to consider themselves "know-it-alls". He has said, "There is nothing wrong with a 'know nothing' investor who realizes it. The problem is when you are a 'know nothing' investor but you think you know something."

As your financial advisor with years of experience and formal training, I am certainly not a "know nothing." And I realize that there is plenty that I don't know.

That being said, I can provide you with information about how to handle your money. I can help guide you in planning for your future. As Buffett said about wise planning for the future:

- "Someone's sitting in the shade today because someone planted a tree long ago."