



Warren Buffett Says Buy on the Dips

Description

By now, investors are well aware of the **Equifax Inc.** ([NYSE:EFX](#)) security breach that's cost EFX shareholders more than US\$5 billion in market cap since September 7, the day the company revealed 143 million American consumers had their private information, including social security and credit card numbers, compromised.

There's no coming back from that kind of error when you're one of only three companies in North America entrusted with providing vital credit information to banks, credit card companies, retailers, and many other businesses that use the data to assess a customer's ability to pay.

"Love them or loathe them, consumer bureaus are probably vital to the functioning of an economy that runs on large amounts of trust," wrote the *Globe and Mail's* Ian McGugan on September 21 when discussing the merits of buying a beaten-down Equifax stock.

A trust betrayed is never regained — or is it?

People have short memories; eventually, they'll get over the Equifax breach, and when they do you can be sure its share price will be higher than \$97.

Risk-tolerant investors like Warren Buffett love uncertainty

Back on October 1, 2014, while the Dow Jones Industrial Average was dropping 238 points, Buffett was busy buying top names in the one-day sales event, while many others were busy selling.

"If you told me that the market was going to go down 500 points next week, I would have bought those same businesses and stocks yesterday," Buffett told CNBC at the time. "I don't know how to tell what the market's going to do. I do know how to pick out reasonable businesses to own over a long period of time."

The fact is, even good businesses go through downturns, and although the Equifax outcome is far from settled, ultimately, I believe history will show this to be an excellent buying opportunity for those able to manage their emotions.

Remember: be greedy when others are fearful.

Buying on the dips works

I have two examples of why buying on the dips works.

The first has to do with **First National Financial Corp.** ([TSX:FN](#)), a competitor to alternative mortgage lender **Home Capital Group Inc.** ([TSX:HCG](#)), which has suffered mightily from a myriad of issues in the past year.

I wrote about First National last October after its stock had dropped 25% in one week thanks to the changes in the mortgage insurance rules. Up to that point, its stock had been on a major roll, only to have its knees cut out from underneath it by Bill Morneau and the Department of Finance.

“I’m a strong believer that markets typically overreact to important news — both on the upside and downside. Only time can help investors understand the true ramifications of a seemingly damaging piece of news,” I [suggested](#) at the time. “In the meantime, investors who don’t own its stock are faced with a potentially compelling opportunity to get in on the cheap.”

At the time, I thought investors might be able to pick up First National’s stock for as little as \$20; in the year since, it hasn’t dropped below \$22, setting in place a good floor price.

Suffice to say, if you’d bought anywhere near the low of \$23.20 during the week of October 3-7, 2016, you would be up 10-15% in less than a year.

The second example of why buying on the dips works has to do with U.S. investment service Motif Investing and one of its customized portfolios.

The portfolio in question is called “Buy the Dip” and was created by Motif in April 2013. In the 53 months since, it’s up 239% compared to 77% for the **S&P 500**.

“By ‘buying the dip’ investors purchase a beaten-up stock with the expectation that the price can soon revert to a higher value consistent with underlying fundamentals,” states Motif’s overview for the portfolio. “Naturally, the risk is that some price drops result from real changes in fundamentals.”

As a consequence of the uncertainty of this kind of approach, Buy the Dip has 25 equal-weighted holdings with market caps above US\$1 billion that are rebalanced weekly, providing diversification with a strict rules-based approach to stock selection.

Investors, being human, often overreact to bad news and good news with equal enthusiasm.

Warren Buffett buys on the dips. Maybe you should, too!

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:EFX (Equifax Inc.)
2. TSX:FN (First National Financial Corporation)
3. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
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