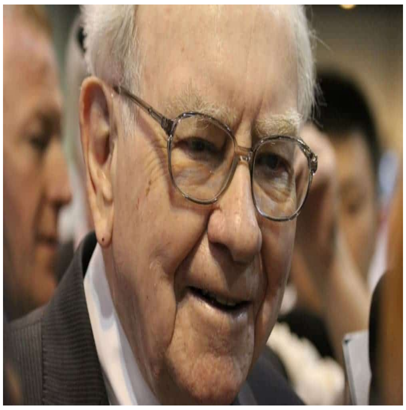

1 Reason Why Warren Buffett Is Able To Capitalise On A Market Crash

Description

While most investors aim to buy stocks when they are trading at attractive prices, few have been better at doing over recent decades so than Warren Buffett. He seems to have an ability to build up his cash pile during bull markets and patiently wait for a market crash. Once a crash appears, he does not appear to suffer from the panic or worry which often inflicts many of his peers.

One reason for his ability to profit from market crashes is his view on holding periods. Buffett's favourite holding period is said to be 'forever', while he always assumes the stock market will close for five years after he buys each stock in his portfolio. In other words, he forces himself to ride out market crashes, with history showing that they eventually become bull markets.

Patient approach

While being a patient investor may not be an exciting prospect, it could help an individual to capitalise on falling stock prices. Buying during volatile periods for a company, industry or the wider economy involves heightened risk in the short run, and there is always a danger that paper losses will be incurred by an investor seeking to buy at a low price level.

For someone who takes a short-term view of their investments, this could pose a significant problem. They may view a paper loss on an investment after a few months as being a failure, and that they were wrong in buying when they did. They may even look to sell in order to buy back at a lower price in future.

In contrast, Buffett would never view such a move as a failure. He may feel that it would have been worthwhile to wait a little longer for an even lower stock price. But since he has a significant amount of patience, he is happy to allow his investments the time they require in order to deliver a successful recovery.

Long-term returns

In fact, if Buffett lacked patience, it is unlikely that he would be one of the world's most successful investors. On a number of occasions, notably during the financial crisis, he has been far too early in buying stocks following a market crash. If he had followed the general consensus among investors during such times, he would have been likely to sell such positions after only a short holding period. However, because he takes a long-term view, further falls are irrelevant as long as he remains optimistic about the prospect for a recovery in the long run.

It may seem counterintuitive to suggest that patience is required in order to capitalise on market crashes. After all, they can require quick thinking if an asset experiences a short and sharp decline in market value. But an ability to hold on to underperforming stocks could be a key difference between great investors and good investors. As history shows, market crashes never last in perpetuity, and they are always followed by bull markets. As such, if 2019 brings declining stock prices, patient investors may be the ones who stand to benefit.

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Date
2025/08/26
Date Created
2019/01/20
Author
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