3 of Warren Buffett’s Best Tips on Dealing With Market Downturns

### Description

Stocks took a beating this past Friday and Monday, with the **S&P 500** falling about 1.5% and the **S&P/TSX Composite Index** sinking 1.26% in just two days. Although short-term daily fluctuations don’t necessarily foretell a downturn, this past week’s losses followed news that the U.S. Yield Curve had inverted for the first time since 2007, which led to renewed talk of a recession. This was a major theme during the December selloff.



So far, the TSX and U.S. markets have been doing well in 2019. But with two-thirds of economists predicting a recession no later than 2020, there may be turbulent times ahead. Should that come to pass, many investors will be tempted to sell shares–and many will. However, as Warren Buffett’s life and career show us, a market downturn can be the best time to pick up shares and watch them grow later. The following are three of Buffett’s best tips for dealing with market downturns so you profit from them instead of losing in them.

## Don’t leverage

Although Buffett is a big fan of buying the dip, he isn’t a fan of borrowing to make purchases. The reason for this is that when you borrow money, there’s an urgent need to pay it back, but stock market corrections can take time to sort themselves out. In order to ride out long bear markets, therefore, it’s important to invest only money you already have.

This can be illustrated by looking at **Air Canada** (TSX:AC)(NYSE:AC) stock. If you’d bought when the stock started falling back in 2007, you’d have made a profit by now. However, it would have taken 10 years to get back to where you were at the start. If you had leveraged your investment, you may not have made it.

## Be greedy when others are fearful

Warren Buffett is well known for his saying “be greedy when others are fearful.” The meaning of this is similar to “buy when there’s blood in the streets,” or “buy when everyone else is selling.” Given the longterm tendency of stocks to rise, it follows that down markets are good buying opportunities. So it's therefore no surprise that Buffett started buying **Coca-Cola** (NYSE:KO) in the aftermath of the 1987 market crash. As Buffett correctly bet, the 1987 selloff was merely a temporary downturn, which laid the foundation for him eventually gaining over 1500% on Coca-Cola shares.

## Expect the dip

A final Buffett tip on dealing with market downturns is to expect that they'll happen sooner or later. The best way to not be caught off guard during a downturn is to know that one is coming. While you might be tempted to try and "time the top" so you can sell everything before the crash, Buffett generally maintains that that's a pipe dream. Instead, you should increase your stake through the downturn and maintain confidence that stocks will go up in the long run. If you want your investments to produce for you even during down markets, it helps to invest in dividend growth stocks and think of the payout as the whole objective of your investment.

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**TICKERS GLOBAL**

1. NYSE:KO (The Coca-Cola Company)
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