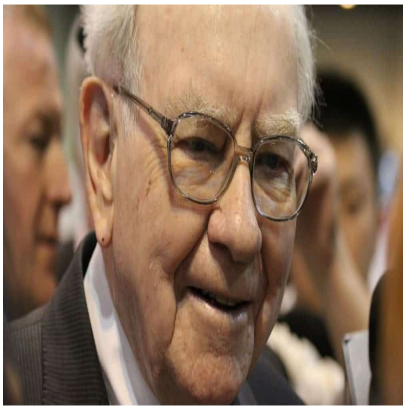

Why Warren Buffett’s Strategy Can Help You to Capitalise on a Recession

Description

The outlook for the world economy has become increasingly uncertain during the course of 2019. Risks such as a trade war between the US and China, Brexit and geopolitical tension in the Middle East have ramped-up over recent months. When combined, or even in isolation, those risks could produce a period of slower growth for the global economy.

This may, therefore, appear to be the right time to become increasingly risk averse. Investors may decide that pivoting from riskier assets, such as stocks, towards more stable assets, such as cash, is a sound move. After all, it could mean that there is a reduced prospect of capital loss.

However, the current economic uncertainty could prove to be a buying opportunity. Value investors such as Warren Buffett have historically used such periods as chances to obtain high-quality assets at discounted prices. Through adopting a long-term view of the stock market, you could do likewise.

Fear/greed

During periods of economic uncertainty, fear among investors generally rises. This is a natural response to the increasing threat of losing money in the short run, and can mean that price declines of riskier assets, such as stocks, is magnified.

Instead of following the investor herd, though, Warren Buffett has historically gone against it. In other words, he has sought to increase his purchases of stocks while other investors are selling theirs due to their rising levels of fear. The end result is that Buffett is able to purchase stocks at a lower price than they would otherwise be trading at, since their margins of safety are wider due to the potential risks they face.

At the present time, a wide range of stocks in major indices such as the S&P 500 and FTSE 100 appear to offer low valuations. Should the aforementioned risks magnify over the coming months, there may be additional opportunities for value investors to buy companies while they offer appealing valuations.

Long-term focus

Although buying stocks during a period of uncertainty can lead to capital losses in the short run, value investors such as Warren Buffett focus on their long-term performance. In other words, they are not concerned about paper losses in the near term, since they have a long-term time horizon that provides their holdings with the opportunity to deliver a recovery.

Since the stock market is cyclical and has a solid track record of delivering a turnaround from even its worst crises, the likelihood of recovery appears to be high. As such, it is logical to adopt a value investing strategy in order to capitalise on the inherent volatility of the stock market. Investors such as Warren Buffett have made this a cornerstone of their investment strategy for many years, with it having the potential to beat the wider market over the long term.

Therefore, should the risks facing the world economy intensify, there may be further buying opportunities ahead for savvy investors.

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