Invest Like Warren Buffett: 1 Top Strategy to Profit From a Market Crash

Description

Warren Buffett, long regarded a one of the best investors of all time, is renowned for the wisdom he shares on how to profit from stock investing, even during market downturns. While many investors are fearful during bear markets and economic slumps, Buffett remains focused on the long-term potential held by the companies he invests in rather than reacting to short-term market moves. This has seen him make large investments in companies that meet his criteria, even during bear markets, when other investors are exiting stocks and moving their capital to defensive assets like gold.

To do this, he focuses on identifying companies with wide economic moats and durable competitive advantages, which protect their earnings from competitors with businesses that are easily understood. Companies possessing those characteristics are typically resistant to economic downturns because of relatively inelastic demand for their goods and services coupled with solid financial positions. Buffett invests using that criteria because he believes that the global economy is complex and unpredictable, which — along with stock market not moving in sync — makes it impossible to predict short-term movements.

Nonetheless, Buffett is resolute in his view that the long-term returns of stocks can't be matched by any other asset class, and here at the Fool we share that view.

It is for these reasons that he is known for this quote: "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

That underscores Buffett's investment philosophy and emphasizes why market corrections and bear markets create an opportunity to acquire quality stocks at very attractive valuations.

Top investments

By the end of 2019, a report from **Berkshire Hathaway** showed that Buffett's three largest holdings by number of shares were **Bank of America**, **Coca Cola**, and **Kraft Heinz**. That report showed hislargest Canadian investment was, surprisingly, given the unpopularity of energy stocks, oil giant **Suncor** (TSX:SU)(NYSE:SU).

Buffett owns 15 million shares valued at around US$427 million in the oil sands giant, and it is easy to understand why he chose to invest in an industry that is increasingly unpopular. Suncor is a top contrarian investment trading at an attractive valuation while possessing many of the characteristics sought by Buffett, including a wide economic moat and industry-leading position.

Crude's prolonged slump, which has worsened because of the coronavirus pandemic and fears of a global recession, sees many energy stocks trading at close to multi-year lows. Suncor, despite reporting some solid 2019 numbers, is trading near its 52-week low, making it an appealing play on higher oil.

Over the long term, it is expected that oil prices will recover once the coronavirus pandemic ends and the global economy returns to growth, which will be a powerful tailwind for oil stocks. While energy prices are depressed primarily because of a global supply glut created by the U.S. shale oil boom, consumption continue to grow, and demand remains relatively inelastic, despite a softer economic outlook.

Suncor is an ideal play on higher crude, because of its quality low-cost, long-life assets and integrated business model, which allows it to profit from almost all segments of the value chain for oil. Despite oil's prolonged downturn, Suncor has been able to grow its free funds flow, which for 2019 expanded by almost 19% year over year to $3.20 per share. Suncor achieved this by focusing on reducing costs and improving the return on capital generated by its assets.

A key strength is Suncor's ability to refine over half of its oil production, meaning it can profit from the spread between crude prices and those of processed products. This also makes it relatively immune to the risks posed by a wider price differential between the Canadian heavy oil benchmark Western Canadian Select and West Texas Intermediate.

Foolish takeaway

There is no better time than to adopt Buffett's contrarian investment strategy than during market downturns, when fear causes many quality companies to trade at discounts to their fair value. Suncor remains a top play on the long-awaited oil recovery. It has successfully delivered value despite sharply weaker oil prices, with the latest dip creating an opportunity to acquire a quality stock at an attractive valuation.

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