# Market Crash 2020: 2 Warren Buffett Tips to Invest in a Bear Market or Recession

**Description**

Not to scare you or anything, but the coronavirus (COVID-19) just sent the stock market into the fastest correction since the Great Depression. If you were simply not prepared for the sudden 180-degree reversal – perhaps with an undiversified portfolio heavily weighted in cyclical or "sexy" stocks – then you might want to correct, and learn from, your past mistakes in case this decline ends up being just the start of something far more horrific.



It's ill-advised to sell on such a drastic sell-off, so either wait for a bounce to reduce a holding in excessively risky cyclical stocks like **Air Canada** or get your defensive weighting back in balance by giving your portfolio an immediate defensive jolt by adding "risk-off" ETFs like the **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC).

## Don't panic sell

The **S&P 500** is currently off 12% from its highs and, given the magnitude of the decline, we could easily find ourselves in a bear market by next week. Still, fight the urge to panic sell. If you're rattled but have a well-diversified portfolio (the only free lunch on Wall or Bay Street), the best course of action would be to do nothing at all and return when you're in the right state of mind to do some buying.

For those investors who are well diversified, it could pay dividends to take a page off Warren Buffett, so you're able to not only survive but make money off the panic of other investors.

## Not sure what to fish for in the sea of red? Don't be afraid of ETFs

If you're in a panic, it can be tough to differentiate between the deals and the value traps.

The market is a sea of red right now, and it's overwhelming to buy stocks while they continue plunging by the minute. Everything on your watchlist may be in buy territory, and while it's normal to be frozen in shock at the magnitude of the declines across the board, you've got to bite your lip and attempt to be greedy while the masses are in a panic over a biological crisis, a financial crisis, or whatever the reason.

The easiest way for overwhelmed investors who feel physical pain by looking at stocks that are down an average of 4.5% in a single trading session, is to look to your favourite index funds or ETFs and buy them on the way down.

Warren Buffett is a huge fan of index funds, and he practiced what he preached by buying some index ETFs in the fourth quarter. If you're perplexed as to what's good value and what's not, then fall back to your ETF of choice to make the job simpler. ZWC is my personal favourite because of its defensive characteristics (covered call options writing strategy married with high-quality dividend stocks) and the dividend yield that's now north of the 7.2% mark, which will serve to dampen any volatility on the horizon.

With a fund like the ZWC, you're getting significant value from buying the dip, but at the same time, you're not putting yourself at high risk and are better preparing your portfolio for a worst-case scenario.

## Don't spend it all at one place (or at one time)



It's a good idea to be a net buyer of stocks after such a violent decline, but it is possible to be *too* greedy while others are fearful. If you exhausted your cash reserves by buying stocks on Wednesday after the S&P 500 fell 8%, you got slapped with an immediate 4.5% decline, and you can't take advantage of the even better markdown in stocks.

Don't blow everything on Black Friday when Boxing Day is around the corner with potentially more significant door crasher deals!

Warren Buffett has a massive cash hoard, and he's not going to drop it all in a single day. Being patient means waiting for corrections to evolve into bear markets and bear markets to evolve into catastrophic implosions, as much as it means waiting for expensive markets to cheapen.

Buy stocks incrementally on the way down and try not to worry about making your broker rich because today's "15%-off" deal could turn into "50%-off" in a few months, or. at this pace, just a few weeks.

Stay hungry. Stay Foolish.

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