Should You Invest During a Recession in 2020? Here’s What Warren Buffett Thinks

Description

Recession is a horrid time for companies, economy, and traders. But if they know what they are doing, it can be a great time for investors. This is repeatedly seen during a number of market recessions and corrections.

For those who knew how to capitalized on a recession and made fortunes during some of the darkest economic times. Those who didn’t make the right decisions at the right time, sunk with the market.

Still, it’s a good idea to take a look at some of the famous pieces of advice from one of the greatest investors, Warren Buffet — and decide whether it’s a smart idea to invest during a recession.

Looking forward

“The investor of today does not profit from yesterday’s growth.”

It’s perhaps one of the hardest one to grasp, especially for new investors. If historical patterns are nothing to judge by, how exactly are we supposed to evaluate a stock? That’s a reasonable question, and not exactly what the wizard of Omaha is probably trying to say here.

I interpret this quote as not waiting for the glory days to return. Choosing a stock because it made people millionaire within three years of its IPO, but then slowed down might be the wrong move, especially if you are making it merely on the hope that it will repeat its history.

Learn to read the stocks as they are. Take cannabis stocks, for instance. Most cannabis stocks showed explosive growth in the starting, but then lost all the momentum and are running flat on **TSX** now. And that’s for the ones that are moving forward at all. But still — some investors believe that buying the dirt-cheap stocks might pay off in the future.

What some investors might ignore is that legal cannabis has struggled against the black market in the recreational area, and are still facing many problems in the medical sector. Even if cannabis stocks gain momentum again, it may be nothing like the former glory days.

Understand market fluctuations

“Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.”

Market fluctuations might affect traders, but for investors, the underlying value of the company they buy in should matter the most. Take **Goeasy** (TSX:GSY), for example. The market value has gone down almost 15% since February 14. Currently, the company is trading for $67 per share on a forward price-to-earnings of 9.6.

Does that make it a bad buy right now? Probably not, as we can chalk up the recent drop to fears of recession or global market effects of coronavirus.

But the fundamentals haven’t changed. It’s still a Dividend Aristocrat. The business model is the same, and the balance sheets haven’t gotten worse in that period.

So instead of seeing the market fluctuation as a bad sign, if someone picks up the stock that has been performing consistently well in the near past, it might be a smart move.

There is a strong chance of the stock getting back up and increasing its market value at the same pace — and that’s not counting the dependable dividend stream you can create with this account.

Foolish takeaway

Warren Buffet himself made a fortune investing in good businesses when they were down. His strategy of looking at the underlying assets and value of the company you are investing in, rather than just the statistical performance of the stocks, has paid off significantly more times than it has failed.

We can therefore learn something from the example and wisdom — and make smart investing decisions during the recession.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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PARTNER-FEEDS

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Author
adamothman