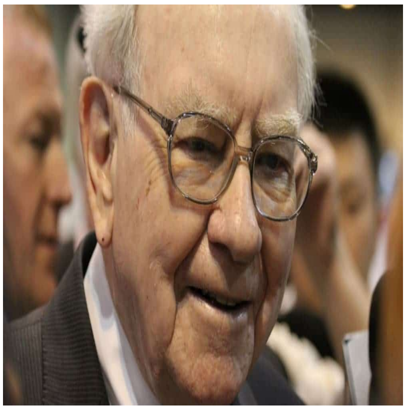

Market Pullback: How Warren Buffett Buys Stocks When the Market Tanks

Description

The stock market is tanking, with no bottom in sight. And while it may seem reckless to jump in before a bottom has had a chance to form, I'd argue that if you're a young investor with ample cash on the sidelines, missing out on the opportunity to buy stocks on this pullback is an even greater risk.

Timing the bottom is timing the market!

Nobody knows when the bottom will be in until after the fact. And given the off-the-charts volatility (in both directions), a sharp V-shaped bottom could wipe out all the bargains without a moment's notice. Just like the 10% single-day crash in the **TSX Index**, nobody will be able to see an upside correction coming.

Thus, it's only prudent to buy gradually on the way down and not try to spend too much effort trying to "time the bottom," because odds are, you'll miss it, and you'll be kicking yourself over the opportunities you should have snagged.

So, don't lower the bar because of accelerating negative momentum. Instead, buy a stock if you believe it's trading at a significant discount to its intrinsic value. Because in the end, that's all that matters for a long-term investor — getting stocks at a discount to their true worth!

Warren Buffett doesn't "time" bottoms

When the markets tank, Buffett isn't looking to time the bottom. He's actually quite horrible at timing the markets over the short term.

Buffett is a man who weighs both the risk of losing money in a continued meltdown and the risk of missing out on tremendous bargains in the event of a “too-quick-to-catch” upside correction. While it may seem like a good idea to buy on the way up rather than on the way down, all too often, investors who implement such a strategy are left on the sidelines entirely, with cash reserves that aren’t tapped into.

Windows of opportunities to buy stocks at bargain-basement prices can close abruptly, so it’s vital to reach out for the bargains on your watch list while they’re multiples below what you’d be willing to pay for them!

Did your stock continue tanking after the dip? Good. Buy more!

There’s no easy way to buy dips. You should expect immense near-term pain for your shot at an outsized long-term gain. Warren Buffett relishes opportunities like this, where stocks collectively nosedive on events that have been plaguing the broader markets.

Buffett’s recent airline bets have likely lost billions in the latest nosedive in the markets, but I’d bet that he’s not even cringing at the quick near-term losses he’s racked up so shortly. He’s more likely licking his chops at the idea of picking up more shares at even lower prices.

It’s times like these where he probably feels like a kid in a candy store with a briefcase full of cash! He’ll buy dips without flinching if he sees the market value of a stock below its intrinsic value.

Unlike Buffett, however, individual investors aren’t sitting on a mountain of cash worth north of $100 billion. As such, it’s only prudent for investors to ensure they’re not exhausting their cash reserves all at once.

As a wise parent once said to their child, “don’t spend it all in one place.” So, if you see a stock that’s a screaming buy after the latest 18% drop in the S&P 500, initiate a starter position and have cash on hand to double your position should it continue tumbling along with the broader market.

Foolish takeaway

We don’t know if we’ll be down 50% in a month or back at all-time highs.

So, be like Buffett and start buying the falling stocks of today, because they can suddenly ricochet off the floor. That way, you’ll balance the risk of racking up substantial losses over the near term with the risk of missing out on long-term opportunities.

Stay hungry. Stay Foolish.

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