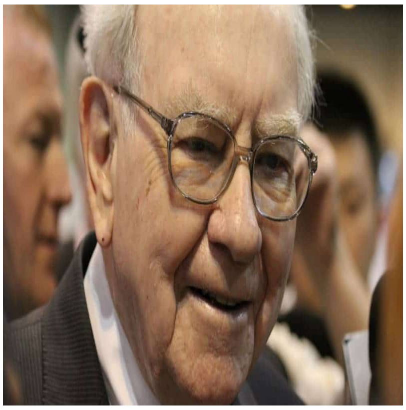

Warren Buffett's Advice: Pick High-Quality TSX Stocks

Description

"It's far better to own a great company at a fair price than a fair company at a great price," Warren Buffett once said. Buffett's strategy of picking robust stocks during times of crisis is the primary reason he's one of the wealthiest people on the planet today.

Although his latest filings haven't been released yet, we know the Oracle of Omaha is probably deploying plenty of cash to buy stocks during this market crash. After all, he had $128 billion in cash on his investment company's books before global markets tumbled this month.

With that in mind, here's how you can apply Warren Buffett's playbook and come out on top after this market crash is over.

Avoid falling knives

Plenty of TSX stocks have lost double-digit percentages this month. Investors with cash on hand may be tempted to jump in and buy stocks that seem like bargains. But it's worth noting that some stocks are on a path to fall much further.

Investors simply don't know how long the current shutdown is likely to last or how quickly the economy can recover after the COVID-19 virus is contained. Some industries, like airlines, hotels, and commercial real estate developers could face months of no income.

Meanwhile, these capital-heavy industries tend to have a lot of debt on their books that still needs to be serviced. A sudden drop in income coupled with expensive debt repayments is the perfect recipe for bankruptcy. Investors need to avoid companies with slim profit margins, high fixed costs, or high debt-to-equity ratios to protect their wealth in 2020.

Despite popular belief, Warren Buffett is quick to drop a stock when its industry dynamics change for the worse. Investors should do the same.

Focus on high-quality stocks

Instead of focusing on risky stocks that seem “cheap,” investors need to focus on quality stocks that seem “fairly priced.” These companies have wide margins, highly variable costs, zero or low debt, and robust streams of earnings — the sort of companies Warren Buffett prefers.

Constellation Software, for example, derives most of its revenue from recurring software licences. Two-thirds of the company’s clients are government agencies and public sector firms, which means the current slowdown won’t have a drastic impact on Constellation’s bottom line.

Similarly, **TransAlta Renewable** isn’t impacted by the collapse in crude oil or the ongoing shutdown. **BCE** doesn’t have to worry about losing subscribers, and **Saputo** won’t be disrupted by the shutdown either. All three stocks have lost value, but their prospects remain bright.

These robust companies don’t face a sudden cash flow issue. Their sales are unabated while their debt burden is manageable. Investors can confidently bet these enterprises will survive the current downturn.

Bottom line

COVID-19 is a global crisis on an unprecedented scale. There’s no doubt the ongoing shutdown and social-distancing measures will have a lasting impact on your lives and economy. Some businesses are legitimately on the brink of failure.

However, many will survive and bounce back stronger. Now is the time to add these to your portfolio at fair prices. I have no doubt the world’s most successful investor, Warren Buffett, is doing the same.

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Date
2025/09/27
Date Created

2020/03/29
Author
vraisinghani