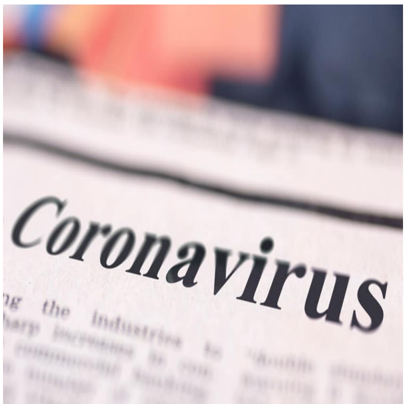

Market Crash: Warren Buffett Isn't Making This Mistake as Stocks Tank, Neither Should You

Description

The coronavirus market crash has been unforgiving to investors, especially dip buyers. There have been a number of 'dead-cat bounces'.

The TSX Index enjoyed an historic three-day rally, but April Fool's spoiled the fund with vicious decline that saw the **TSX Index** pull back 3.8% and the **S&P 500** nosedive 4.4%.

This raises the question – when should investors start putting money to work without risking their shirts? And how should young investors approach this market meltdown, given the recent dry-up in liquidity and surging unemployment?

Dip buyers: V or U?

If you weren't invested during the 2007-08 Financial Crisis, you're probably more accustomed to buying dips that quickly rewarded you with V-shaped recoveries.

The 2018 Fed-induced plunge and a handful of garden-variety corrections quickly enriched those who held their noses and bought. But this time is different. There are fears that the coronavirus will cause a global depression. Investors need to realize this market may see more of a months-long U-shaped rebound.

Beginner investors looking to put money to work are going to need to ditch their "buy the market crash before the V-shaped rebound kicks in" mentality. They need to realize there will be a handful of 'fake outs' on the way down as the deadly COVID-19 pandemic continues.

COVID-19 is continuing its spread across North America. Sadly, the virus is not going anywhere overnight, and is likely to continue to have a devastating humanitarian and financial impact as we move through the second quarter.

A brutal quarter ahead

Goldman Sachs expects to see the U.S. jobless rate soaring to 15% alongside a 34% GDP decline for Q2. While it certainly seems like we're in for a global depression, don't make any rash decisions with your investments.

The federal government is providing unprecedented amounts of fiscal and monetary stimulus to limit the economic damage caused by COVID-19. And as treatments become available or the infection curve "flattens" through social distancing, the global economy could still pick up where it left off in two years or so, as furloughed workers head back to work.

In the meantime, investors are going to need to keep calm and continue with their long-term investment plans. Market crashes prove to be generational opportunities for investors to grab stocks at discounts to their intrinsic values. Still, one must realize that not even a U-shaped rebound is a guarantee. Investors should ensure they have sufficient liquidity at all times and not look to exhaust cash reserves at any one point on the way down.

How to buy the market crash responsibly

If you've lost your employment or are worried about your job security, you absolutely <u>must</u> keep your emergency fund intact, even though it's tempting to put it all to work on stocks at any one instance. And although a V-shaped rebound into year-end is still very much possible, one should still buy steadily on the way down only if they're not at risk of digging too deep into their emergency funds amid the market crash.

If you've got an emergency fund and ample cash on the sidelines, you may want to consider nibbling at stocks now and gradually over the second quarter. Do some buying, but don't expect the current 52-week low to be the bottom.

It is possible to be *too* greedy while others are fearful, especially if you find yourself in a tight financial situation amid these times of crisis.

Foolish takeaway

Be greedy, but not *too* greedy in this market crash. And please don't exhaust your cash reserves by chasing abrupt bounces. They could leave you sitting on the sidelines if stocks test new depths. The coming months are bound to reveal even uglier numbers than we are seeing now.

Warren Buffett probably isn't putting his $128 billion cash hoard to work all in one go. He's spreading his greed-driven bets, not just over many stocks, but over many instances in time.

The key to making big money in *any* market crash is not to let emotions control your investment decisions, whether it be extreme fear or greed.

Stay hungry. Stay Foolish.

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