



Follow Warren Buffett's Advice After the Stock Market Crash

Description

With the stock market having experienced a highly challenging first quarter, many investors may feel that savings accounts are a better destination for their capital. After all, they are far less risky than buying stocks, and could even offer a better return in the short run.

However, the long-term prospects for the stock market appear to be far superior to those of cash. Investors such as Warren Buffett have bought stocks while they are cheap during previous bear markets, and have gone on to generate high returns.

As such, now could be the right time to buy a [diverse range of stocks](#) and hold them for the long run.

Cash prospects

Holding your capital in savings accounts could lead to a loss of spending power over the coming years. Interest rates are already at historically low levels, and could move even lower as monetary policy looks set to become increasingly accommodative.

While low interest rates may help to support the economy during a challenging period, they are likely to mean cash returns are below inflation. This situation could continue over the medium term, since policymakers may adopt a cautious stance towards any future economic recovery. The end result may be that your cash gradually loses its spending power, and becomes worth less in future than it is today in terms of the goods and services it can buy.

Undervalued stocks

Stock prices could realistically move lower in the short run. Investor sentiment has been weak over recent months, and the spread of coronavirus may dictate that further restrictions on movement and travel are necessary.

However, buying undervalued stocks while other investors are selling them has been a successful

strategy used by value investors such as Warren Buffett. He has always sought to 'be greedy while others are fearful'. In doing so, he is able to buy high-quality companies while they trade at significant discounts to their intrinsic values. This helps to maximise his long-term rewards, and is a major reason why he is one of the most successful investors of all time.

Buying today

Clearly, being bold and buying stocks right now is a difficult step for any investor to take. Paper losses could mount up in the near term. However, through purchasing stocks that have solid balance sheets, strong free cash flow and a track record of defensive characteristics during mixed economic conditions, you may be able to capitalise on the current weakness across the stock market.

Over time, this may lead to significantly higher returns than those which are likely to be available on cash. Your portfolio may not only beat inflation when it is invested in stocks, it could also provide you with a generous passive income in older age that improves your level of financial freedom in retirement.

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