TFSA Investors: How to Invest Like Warren Buffett During a Pandemic

Description

The darkest hour for the stock market may now be over, and that may be a green light for Tax-Free Savings Account (TFSA) investors who've been waiting for the perfect time to put their 2020 contribution ($6,000) to work.

But don't think for a moment that the coronavirus (COVID-19) pandemic has suddenly fallen in the rear-view mirror and that stocks can't plunge again as they did in February and March.

With the unprecedented magnitude of uncertainty, investors will need to exhibit caution as the economy attempts to make a return to semi-normalcy and not have unrealistic expectations regarding a virus that even experts know very little about.

Moreover, a global return to normalcy from the pandemic could still suffer its fair share of stumbles. With a potential COVID-19 resurgence in fall and a risk of an increased rate of spread from the rushing of a summer re-opening, TFSA investors should resist the urge to chase a V-shaped recovery.

Rather, they should seek to buy stocks gradually over the next year as the layers of uncertainty gradually peel away over the coming months.

How is Warren Buffett investing through the era of coronavirus?

Warren Buffett is known to make fortunes off market crashes by buying stocks at fractions of their true worth. However, his radio silence (and selling activities) in April and Charlie Munger's recent words of caution imply that the Oracle of Omaha is not swinging for the fences with his US$120+ billion mountain of cash, at least not yet.

One can only speculate as to what Warren Buffett is really doing right now. With the Oracle poised to break his silence in just a week from now during **Berkshire Hathaway**'s annual shareholders' meeting on May 2, TFSA investors will finally get more clarity on how to navigate through this pandemic that Charlie Munger referred to previously as a "typhoon."

If I had to guess what the Oracle's up to, I'd say he's picking his spots very carefully and is nibbling away at stocks gradually, as he waits patiently for calls from "frozen" firms in need of financial aid.

TFSA investors: Staying liquid is of the utmost importance when the tides go out!

Berkshire remains ridiculously liquid amid times that call for sufficient liquidity.

Even as promising news relating to the coronavirus is released, you can be sure that Warren Buffett is not looking to exhaust Berkshire's liquidity position. That way, he'll be able to swing at even better pitches (perhaps some sweetheart deals!) as they come along. Nobody knows what the endgame of this pandemic will be.

As such, investors should seek to be like Buffett and treat the recent coronavirus crash as a marathon and not a sudden sprint back to the highs.

As an individual TFSA investor, you don't have pockets as deep as Buffett's. So, you should be paying that much more attention to your personal liquidity position and make sure you're not putting yourself in a spot to get crushed should another cash crunch happen.

While it is a good idea to pick up shares of some of the harder hit deep value plays out there, such as **Air Canada**, you shouldn't *ever* seek to exhaust your cash reserves at any one instance in time because cheap stocks can always become much cheaper. Just have a look at Warren Buffett's soured airline bets.

At the time of writing, Air Canada stock trades at a mere 1.1 times book. The stock could double or even triple and still remain cheap based on various traditional valuation metrics.

As such, TFSA investors should take advantage of the bargain amid massive uncertainties while it exists, but should scale into a position rather than going all-in on a bottom they may turn out to be phony!

Foolish takeaway

Do nibble away at the most promising of bargains as they come to be. But don't sacrifice your liquidity position because, like Warren Buffett, you always need to be prepared for *anything*.

Stay hungry. Stay Foolish.

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