Why I’d follow Warren Buffett’s Advice on How to Beat a Market Crash

Description

Warren Buffett is one of the world’s most successful investors of all time. His strategy, though, is very simple and can be followed by almost any investor.

It includes the aim of buying high-quality companies during periods where other investors are looking to sell. This provides access to low stock prices, as well as a margin of safety for buyers that improves your risk/reward opportunity.

With stocks appearing to be attractively priced at the present time following the recent market crash, now could be the right time to implement Buffett’s strategy.

Buy on fear

The idea of buying stocks during a period of economic uncertainty may sound like a risky move to many investors. After all, there is a risk that they could move lower in the short run depending on news and a wide range of other variables. This may lead to significant paper losses if the wider stock market experiences a prolonged downturn.

However, investors such as Warren Buffett use periods of weakness for the wider stock market to their advantage. They accept that the stock market is cyclical, and that opportunities to buy high-quality companies while they trade at low prices should be taken. Such moments allow investors to obtain wide margins of safety that may improve their overall risk/reward opportunities.

Implementing such a strategy while your peers are looking to sell stocks can be challenging, and is likely to require a significant amount of self-discipline. But through focusing on facts and figures, rather than investor sentiment, you may be able to take advantage of low valuations to prepare your portfolio for a long-term recovery.

Long-term focus

Like many successful investors, Warren Buffett takes a long-term view of his holdings. This has been a worthwhile move over recent decades, since the stock market has moved higher following each of its previous bear markets. In fact, it has always recovered from its downturns to post new record highs.

Although there is no guarantee that the same outcome will follow the 2020 market crash, it seems highly likely. The world's economy could benefit from the fiscal and monetary policy stimulus that has already been announced across many major economies over the coming years. This could cause company earnings and investor sentiment to improve, which may lead to higher stock prices across a wide range of sectors.

Therefore, ignoring the short-term movements of your portfolio and looking many years into the future could allow you to generate high returns. Although economic downturns and bear markets are painful for investors in the short run, they provide opportunities for value investors such as Warren Buffett to buy stocks when they are cheap to maximise their gains over the long run. As such, the 2020 market crash could be the right time to buy stocks, rather than sell them.

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