Market Sell-Off: 1 Mistake Buffett Made That You Shouldn’t

Description

Many investors sold off their stocks in March, as the COVID-19 crisis created a state of panic among individuals and businesses. This was the first time governments worldwide imposed lockdowns and banned all types of non-essential travel. Nobody knew how the COVID-19 pandemic would impact their businesses and income. Hence, everyone cashed out to have enough money to meet their expenses during the lockdown.

Now, businesses and people are coming out to a disrupted economy. It will take some time to repair what is damaged. Before the growth, there will be a pullback, and that will lead to another stock market crash, although it will not be as grave as the March crash.

One mistake Buffett made in the March sell-off

The Oracle of Omaha, Warren Buffett, sold risky stocks like airlines after the March sell-off. He was right to sell the airline stocks, as he saw no recovery for the industry in the medium term. But he made one mistake by not following his advice to buy when the market is fearful. Instead, **Berkshire Hathaway** hoarded US$137 billion in cash, waiting for the next big opportunity to buy.

Don’t wait for another sell-off to buy good stocks

Buffett was right in selling weak stocks, but he was wrong in not buying good stocks. The market sell-off was the perfect time to purchase shares of cash-rich companies like **Apple** and **Alphabet**, whose businesses are shaping the future. They are market leaders in their respective areas and are tapping new growth markets like cloud services. Their stocks have rallied 40% and 66%, respectively, from their March lows. If you had invested $1,000 each in these two stocks during the March sell-off, you would have earned $1,000 in just three months. Buffett missed out on this opportunity, but you shouldn’t.

If you are holding on to excess cash waiting for the second market crash, you are missing out on the rally. Instead of holding onto the cash, invest 50% of that cash in stocks that are resilient to an economic downturn. This way, you will not completely miss out on the stock market rally and will still have the cash to buy in a market crash.

Market disruptors in the 2020 recession

The pandemic-driven lockdowns have changed the way companies do business and the way people shop and pay. The culture of working from home, e-commerce, and digital payments created new market disruptors like **Shopify** (TSX:SHOP)(NYSE:SHOP). It is wise to invest in market disruptors, which are well placed to tap emerging trends.

Without a doubt, Shopify stock is the poster child of the pandemic, growing 130% year to date. Investors have already priced it for 10 years, making it a good sell rather than buy. Walking on the lines of Shopify are cloud services that facilitate the digitization of business processes and support social distancing. These enterprise software solutions help companies optimize their operations and reduce costs.

Buy into the future this recession

When a recession is looming, the trick is to buy stocks that are resilient to an economic downturn and cater to future needs. The lockdown has made e-commerce a necessity. E-commerce needs faster, cheaper, and flexible delivery options, which makes planning and execution a challenge in the supply chain. **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX) will benefit from the new normal of e-commerce in the logistics and supply chain process.

Another future business need is that of cost reduction and operational efficiency as the recession creeps in. Even after the coronavirus is contained, businesses will have to follow safety measures until a vaccine is found. They will have to adjust their supply chain in line with the international travel restrictions, making logistics the next big challenge. Descartes is well placed to help companies address short-term logistics challenges. It will also help companies optimize their supply chain operations, thereby saving costs and minimizing losses.

Descartes stock jumped 70% from its March low and is trading at 18 times its last 12 months sales per share. Its valuation is lower than that of Shopify (85 times) and rival Kinaxis (25 times). Descartes stock will grow even after the second market crash and continue to rise in the long term. Hence, it is a good buy, even at its current all-time high.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:DSG (The Descartes Systems Group Inc)
4. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Tags

1. Editor's Choice

Date
2025/08/22
Date Created
2020/06/24
Author
pujatayal