Warren Buffett's Pandemic Strategy Should Be Yours Too

Description

The past few months have seen the market react in an unprecedented way to an unprecedented global pandemic. After a massive market crash that lasted less than a month, several stocks have reached or surpassed their pre-pandemic highs in just three months. However, one investor who has somewhat missed out on this rally is Warren Buffett.

I say *somewhat* because Buffett still has a tonne of high-quality business and stocks he owns in his portfolio. However, he sold airline stocks during the initial crash.

Soon after, we started to see the major market rally materialize. This market rally has extended to all the higher-risk stocks, including companies on the verge of bankruptcy. Yet some people still question whether Buffett should've onto the stocks.

Buffett, however, isn't buying or selling based on short-term price movements. He sold the stocks because his long-term view of the industry shifted.

While this is a conservative approach, it's not even the most important strategy he's employing. Here's what I took from his comments early on and still believe he's doing today.

Warren Buffett is simply being patient

One of Buffett's most famous quotes, "The stock market is designed to transfer money from the active to the patient," is one of the most important things a long-term investor can remember. And at the moment, this seems to be exactly what he's doing.

There's no question that's what he's been doing for the last few years, building up his cash position to record highs.

However, many investors were more surprised that Buffett wasn't buying high-quality stocks during the first market crash — more so than the fact that he sold stocks that have since rallied.

Buffett, as a long-term investor, has understood this pandemic well. And when he wasn't buying in the initial market crash, that signalled to me that he thinks things will get worse before they get better.

Investors need to follow Buffett's lead

Being patient is hard to do, especially when it seems like there is a tonne of easy money to be made. However, long-term, savvy investors who wait for the right moment could be rewarded handsomely.

I would advise all investors to follow Warren Buffett's lead and prepare for more carnage.

This means selling your highest risk **TSX** stocks, making sure your existing portfolio is robust, and having a decent cash position on hand and ready to deploy.

Stocks you should continue to own are your long-term investments. These are the companies you have confidence in to continue to perform with little or no impact on business.

A stock like **Northland Power Inc** (TSX:NPI) is one I wouldn't even think of selling. Northland has a lot of qualities that an investor like Warren Buffett would appreciate.

It has an easy-to-understand business, an excellent management team, and the industry economics look very attractive for years to come.

Northland is in the power generation business, so it likely won't see too much of an impact if fall into a recession. Furthermore, more than half of Northland's power generation comes from renewable energy.

This is important because renewable energy is a rapidly growing industry. And we're already seeing that with Northland bringing a tonne of new capacity online over the next few years.

The new capacity brings with it a significant opportunity for growth in the shares, which is why I'll be holding the stock for years.

Bottom line

It's easy to get caught up in the euphoria of markets. However, investors should exercise some patience and follow Buffett's lead.

In the long run, you'll be happy you did.

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Date
2025/08/27
Date Created
2020/06/28
Author
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