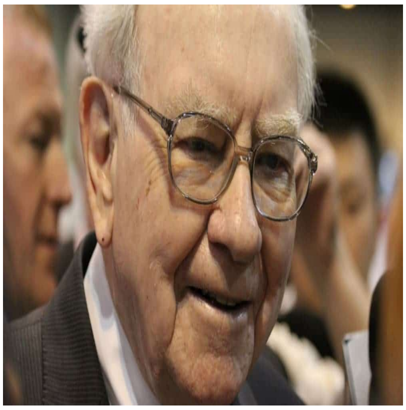

COVID-19: 2 Tips to Invest Like Warren Buffett Amid This Pandemic

Description

Warren Buffett shocked the world when he announced that he'd done an unremarkable amount of buying the first quarter of 2020, which turned out to be one of the best buying opportunities in history, as the **S&P 500 Composite Index** was quick to bounce back in one of the best second quarters in the record books.

While many pundits were quick to grill Buffett for sitting on his hands, the implicit "tips" he gave to his followers in **Berkshire Hathaway**'s 2020 annual shareholders may prove to be invaluable for investors looking to navigate through the COVID-19 pandemic.

Buffett had a sombre tone in this year's annual shareholder's meeting in front of an empty crowd. It was pretty surreal, as Buffett went through several slides, some of which reflected on the performance during the Great Depression, without his right-hand man Charlie Munger by his side.

Warren Buffett didn't find any value as the stock market imploded in the grips of the COVID-19 crisis. He acknowledged that there was a wide range of possible outcomes from this pandemic and that *anything* could happen in this highly uncertain market that's exhibited off-the-charts volatility.

There's no shame in having a bit of cash on the sidelines

A Great Depression-style environment now appears to be off the table thanks in big part to the unprecedented monetary stimulus provided by the U.S. Federal Reserve.

The stock market has mostly recovered despite continuously surging COVID-19 cases across various parts of the U.S. thanks to strong backing by central banks. But it'd be foolish (that's a lower-case "f") to assume that stocks or the economy are out of the woods and that an effective vaccine will eliminate COVID-19 on a set date.

Economic fundamentals have divorced themselves from the stock market, mostly because the market is forward-looking and sees an abrupt economic recovery a year or so into the future. But the separation between the market and the economy isn't guaranteed to last, as it could narrow should things take a turn for the worst.

If it turns out a second major coronavirus outbreak is in store for the latter half of the year, government-mandated shutdowns could be on the table once again, and the markets could be due for another vicious correction as the reality of a non-V-shaped recovery sets in.

Of course, the advent of an effective vaccine, or even more action from the Fed could send stocks soaring higher, leaving the “wallflowers” who’ve stuck on the sidelines behind.

Warren Buffett is playing things cautiously by ensuring sufficient liquidity on the sidelines to be ready for bargains should another pandemic-driven market meltdown hit us when we least expect it. At the same time, he’s staying invested and is scooping up value when he sees it despite the macro headwinds.

Know the difference between investment and speculation

Air Canada (TSX:AC) is a prime example of a sound, profitable investment that transformed into more of a speculative bet due to its excessive vulnerability to the COVID-19 pandemic. If the pandemic worsens, stocks most-affected by the pandemic will lead the next downward charge, potentially with no bottom in sight.

While the bull-case scenario for an air travel play like Air Canada is enticing enough to warrant your investment dollars, it’d be wise to only buy what you’d be willing to lose. Like it or not, without visibility into the endgame with this pandemic, airline stocks will continue to be a turbulent ride.

Some airline stocks could plunge toward zero, so like placing a bet at the roulette table, I’d only advise betting what you’d be comfortable losing.

Air Canada may be far more liquid than many of its peers south of the border, but in the age of COVID-19, I’m still of the opinion that the name is more of a speculation than an investment.

Warren Buffett isn’t one to speculate, which is why he dumped his airline stocks, but if you’re a young investor with disposable income, Air Canada may be a speculative bet worth making, as long as you understand the risks.

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