



Stock Market Crash Preparation: Follow Warren Buffett's Top Advice

Description

The stock market crash in March of 2020 was brutal. Shares plummeted by 40% almost across the board, with markets seeing the lowest dive since the Great Recession. But unfortunately, it looks like investors aren't out of the woods yet. Another stock market crash could be coming in the next month or so, and it might only be one of the many. It's no wonder then that billionaire investor Warren Buffett has been on the sidelines.

Warren Buffett remained tight lipped during the last crash, keeping his cards – and his cash – to his chest. The main reason? The pandemic. While other downturns are almost considered healthy for economies, a pandemic isn't healthy for anyone or anything. It creates a volatile situation that even Buffett hasn't dealt with.

What's worse is that there could be further crashes as further waves of the pandemic come back. Businesses around the world are finally opening, but with federal spending at an all-time high, and the pandemic far from over, it could mean another stock market crash could come again, and again, and again. So how should Warren Buffett and others prepare?

Watch closely

I mean this in several ways. First, watch Warren Buffett's favourite indicator of the next crash. When the Wilshire 5000 Index is divided by the annual U.S. gross domestic product, it should create a ratio of 1. That ratio means the market is fairly valued. However, right now that same ratio is at around 1.7. For comparison, 1.3 is considered overvalued, so a 1.7 is *massively* overvalued by 70%! This is Buffett's top signal of the next crash.

That means it's time to stop buying, and start selling. Not everything, of course, but those stocks investors aren't sure are going to keep up those share prices. After all, with a stock market crash you can always reinvest. It also means start watching, creating a watch list of stocks you'd like to have in your portfolio.

For those stocks, definitely look for long-term holds. That's Warren Buffett, and the Fool's, top piece of

advice. You shouldn't try to play the market. The market is beyond volatile at the moment. Instead, be smart and look for stocks that will see you through this pandemic and beyond. That likely what Buffett is doing now, waiting and watching for the right moment.

Think steady

A perfect long-term option for investors that [checks all the boxes](#) today is **Canadian Pacific Railway Ltd.** ([TSX:CP](#))([NYSE:CP](#)). No matter what the market does, CP Rail will in all likelihood continue to produce strong revenue. That's because when one area of the market goes down, another comes up. But in the case of the pandemic, that's even more true.

Instead of shipping items by air or by trucks, the [railway](#) provides a safe option, with a practically unlimited amount of room to ship cargo. While the last earnings report saw a decrease in revenue, that was during panic mode. With businesses opening and the company getting back on track (pardon the pun), the company should see revenue rebound to near pre-crash levels. In fact, it already reached record-level shipping of grain produce.

Meanwhile, CP Rail has already reinvested in its infrastructure, something its peers still have to do. That means the spending is done, and shareholders only have increased revenue to look forward to. In fact, shares are already at all-time highs, showing the resiliency of this stock. Should another crash come, investors would do well to snatch up as much as they can.

Bottom line

When investing during a pandemic and stock market crash, you have to think long term. That's what Warren Buffett has always recommended, and it couldn't be truer today. CP Rail is the perfect option for those looking for steady long-term growth, with a nice bump after another crash hits. And another. And another.

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Author

alegatewolfe

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