



I'd Follow Warren Buffett's Lead and Capitalise on Cheap Stocks After the Market Crash

Description

Warren Buffett has built his career on buying cheap stocks and holding them for the long run.

Following the 2020 stock market crash, a number of sectors are unpopular among some investors. This could create buying opportunities for other long-term investors.

Of course, political and economic risks remain at high levels. As such, holding some cash in reserve in case of a second market crash could be a shrewd move that strengthens your financial prospects over the long run.

Following Warren Buffett's lead

Warren Buffett's value investing focus means that he has always sought to purchase high-quality companies when they trade at cheap prices. In many cases, opportunities to do so have occurred when the economic outlook is relatively weak. As such times, investors are generally downbeat regarding the prospects for a wide range of businesses. This can mean that they underestimate the capacity of companies to survive a period of weak operating conditions, as well as their ability to recover as the economic outlook improves.

The 2020 stock market crash has produced such conditions. Some stocks have rebounded after their March lows. However, investors are likely to find a relatively large number of companies that trade on valuations that are significantly lower than their historic averages. This may allow them to buy high-quality businesses at low prices to benefit from their likely recovery over the coming years.

Investing in a recovery

Warren Buffett has always taken a long-term view of his portfolio. He is far less concerned than most investors with the performance of his holdings over a period of weeks and months. Instead, he focuses on how his stocks will perform over a period of many years.

The current prospects for many companies may lead investors to think that a recovery is not possible. That may be true over a short period of time, but over the long run the stock market is likely to enjoy a sustained bull market. Its track record shows that it has always come back from bear markets to produce new record highs. This could lift the valuations of currently unpopular stocks as investor sentiment improves.

As such, following Warren Buffett's lead and adopting a long-term view could be crucial to your investment success. It may enable you to fully capitalise on the recent stock market crash and its subsequent recovery.

Cash savings

Warren Buffett also holds large amounts of cash at all times. This may mean his returns are held back to some degree. However, it also provides him with financial flexibility to act should there be further downturns in the short run.

As mentioned, risks are high at the present time. Therefore, there is a real threat of a second stock market crash. This may mean that holding some cash is a good idea. It could allow you to take advantage of further buying opportunities that may be ahead.

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Author

peterstephens

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