Warren Buffett: 5 Reasons Why You Should Not Panic if the Market Crashes Again

Description

The equity markets slumped into a bear market territory in record time earlier this year due to COVID-19. However, the snap-back rally was equally unprecedented, especially considering global economies are expected to experience a significant GDP decline in 2020. Experts believe the stock markets are not in sync with the economy, which means [another market crash] is on the horizon.

However, if you follow the Warren Buffett rules of investing, a market crash should not bother you too much.

Do no sell at a lower value

You will lose money if you sell your investments. Technically, your net worth will rise and fall with the stock market. However, you only lose money if you sell at a loss. If you hold quality investments, they will stage a spectacular rebound when the market recovers.

The best days follow the worst ones

According to a **J.P Morgan** report, six of the 10 best days for the S&P 500 between 1999 and 2018 occurred within two weeks of the 10 worst days. If you missed these 10 best days of the market, your annual returns would have reduced to just 2% compared to 5% over the course of 30 years, effectively reducing your portfolio value by 50%.

A market recovery is inevitable

Market crashes and economic recessions are a few hard truths that cannot be escaped. However, a market recovery is also inevitable. There have been 38 stock market crashes since 1950 that have been followed by a rebound.

Have an emergency fund in place

While it is impossible to time a market crash, you need to be prepared for it. You need to focus on having at least six months' worth of expenses in cash stashed away in an emergency fund. This means you will not have to sell investments when they are down due to a cash crunch.

A market crash is a buying opportunity

Warren Buffett has always advised buying stocks when others are selling. A market crash presents a golden opportunity to buy quality companies at a lower multiple. Further, if you invest in dividend-paying companies in a market crash you will benefit from a higher yield that can be reinvested to create long-term wealth.

One of the Canadian stocks that you can buy is **Fortis** (TSX:FTS)(NYSE:FTS), a diversified utility heavyweight. Fortis is recession-proof and its regulated business allows the company to generate stable cash flows across business cycles.

Fortis stock is trading at $53, which means its dividend yield is a healthy 3.81%. So, a $10,000 investment in the utility giant will return $381 in annual dividends. The company has increased dividends for 47 consecutive years and is one of the safest stocks on the TSX.

Its regulated assets help it generate high-quality earnings to support future payouts. Fortis expects its base rate to increase to $40.3 billion by 2025, which will drive earnings and cash flows higher in the upcoming quarters.

We can see Fortis is an ideal income-generating asset and has survived multiple recessions over the years due to strong fundamentals. With operations in the U.S., Canada, and the Caribbean, Fortis also has a diversified revenue base.

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