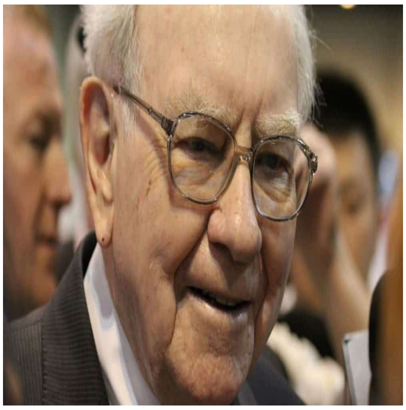

I’d Use Warren Buffett’s Strategy to Get Ready for Stock Market Crash Round 2

Description

The threat of a second stock market crash may leave some investors feeling unsure when it comes to managing their portfolios. For example, they may feel that buying stocks is a risky move. However, other assets such as cash and bonds offer disappointing returns in many cases.

Therefore, following the advice of Warren Buffett could be a sound move. His long track record of outperforming the stock market and his ability to use short-term challenges to his advantage could act as a useful guide during an uncertain period for the world economy.

Holding cash ahead of a stock market crash

Predicting when the next stock market crash will occur is extremely challenging. As this year’s market decline showed, a downturn can take place at any time without prior warning. However, the existence of risks such as Brexit and the coronavirus pandemic means that investor sentiment may be very changeable at the present time. As such, there may be a heightened chance of a second downturn across the global stock market in the coming months.

Therefore, following Warren Buffett’s lead and holding some cash could be a logical approach. He always has a significant amount of cash available should the stock market fall to more attractive buying levels. This has enabled him to buy undervalued stocks when other investors are selling them, thereby improving his chances of generating impressive long-term returns.

Of course, this does not mean that investors should sell all shares and hold only cash due to the threat of a stock market crash. However, having some spare cash available at all times may be a prudent step to take given the challenging economic outlook.

Identifying high-quality businesses

Some high-quality stocks have recovered strongly after the 2020 stock market crash. As such, they may no longer offer a margin of safety. Identifying them and waiting for their prices to reach a lower level in a future market decline could be a profitable move. It may allow an investor to access the best businesses in a specific sector when they offer sizeable capital growth potential.

Warren Buffett has always sought the most attractive businesses at the lowest prices. He has generally avoided simply buying cheap shares. Instead, he has focused on businesses with wide economic moats that can deliver relatively strong profit growth over the long run.

By making a list of the most attractive companies prior to a stock market crash, an investor can be ready to act on temporary market mispricings. As this year's market downturn showed, sometimes stock prices can trade at low levels for only a short period of time.

Therefore, undertaking the necessary research now as to which stocks to buy should they fall in price at a later date could be a logical strategy. It may allow an investor to follow Warren Buffett's lead in buying high-quality companies when they trade at low prices.

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