



## TFSA: Save Your Cash From a Market Crash the Buffett Way

### Description

No matter how much you say that I can take risks when you lose money in the stock market, it pinches. Warren Buffett is the most celebrated value investor as he takes calculative risks. He has lived through several market crashes, such as the 1987 Black Monday, the 2000 dot-com bubble, and the 2008 financial crisis. And in all crashes, he has made money. Hence, many investors follow Buffett's advice.

### Buffett's crisis experience saved his cash from a market crash

In the 2020 pandemic crisis, Buffett was selling more than buying. He remained on the sidelines and studied the impact the pandemic had on the stock market. Hence, he rushed to sell airline stocks, realizing that it's no use keeping the money in them as they aren't returning to profits for the next foreseeable future and that it's better to keep hard cash.

In the six months since March's sell-off, the stock market rallied while the economy crashed. The market rally was driven by the stimulus money people received. Many Canadians spent their \$2,000 Canada Emergency Response Benefit (CERB) money on inflating **Shopify's** stock price to \$1,450 from \$499. Buffett knew that jumping into this rally won't fetch him returns for 10 years – and that's exactly that happened.

Shopify stock's rally came to a standstill in July, and it got stuck in the \$1,200-\$1,500 price range. Investors went so bullish on the stock that they priced it for 10 years. This happened with all virus stocks like **Kinaxis** and **Descartes Systems**. Hence, these overvalued stocks slumped on vaccine news. The COVID-19 vaccine will burst the pandemic bubble and turn the tides.

### Buffett's learnings from past market crashes

Learning from the past market crashes, Buffett knew there are plenty of value stocks in a market crash. These stocks will not be cheap when the economy recovers. Hence, buy a value stock while the pandemic is still there. The markets grow significantly after downturns as they are in a recovery phase.

The **Toronto Stock Exchange** saw a glimpse of this recovery this month. All pandemic-hit stocks like airlines, energy, and real estate jumped on COVID-19 vaccine news. They surged to their all-time high in the post-pandemic era. It will still take a year or two for these stocks to recover to the pre-pandemic levels.

If there is a [second market crash](#), the overvalued virus stocks will perish, and the pandemic-hit stocks will flourish. Hence, Buffett's **Berkshire Hathaway** made its [biggest investment](#) of US\$10 billion in acquiring **Dominion Energy's** natural gas transmission company.

The Canadian counterpart of Dominion Energy is **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)). Buffett also made some smaller purchases: US\$564 million in **Barrick Gold** and US\$318.36 million in **Suncor Energy**.

## Protect your cash from another market crash

If you want to replicate Buffett's magic, invest your money wisely through Tax-Free Savings Account (TFSA). If you have \$10,000 cash to invest, put \$8,000 in Enbridge, \$1,800 in Suncor Energy, and \$200 in Barrick Gold. I would not recommend buying gold stocks at all if it wasn't to protect your cash from a market crash. Gold stocks rise when the currency falls. Other than that, gold stocks don't generate returns.

Your high exposure to Enbridge will go a long way. Enbridge transmits oil and natural gas through its pipelines. It doesn't have exposure to oil prices but to oil demand. The pandemic reduced oil demand, and therefore, the volume transmitted through Enbridge's pipelines.

Hence, its stock was trading at a 35% discount, inflating its dividend yield to as high as 8.8%. The stock has started on its road to recovery, rising 11% so far this month on vaccine news.

This is your last chance to lock in a high dividend yield of 7.95%. When the economy recovers, its dividend yield will likely return to 5.8%-6%, and you will lose out on the chance to get a 35% capital appreciation.

In dollar terms, a delay in investing \$8,000 in Enbridge will cost you \$3,100. Similarly, a delay in investing \$1,800 in Suncor could cost you around \$1,400.

Now, is the time to buy before it is too late.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing
5. Metals and Mining Stocks
6. Tech Stocks

### TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)

2. TSX:ENB (Enbridge Inc.)

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## **Author**

pujatayal

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