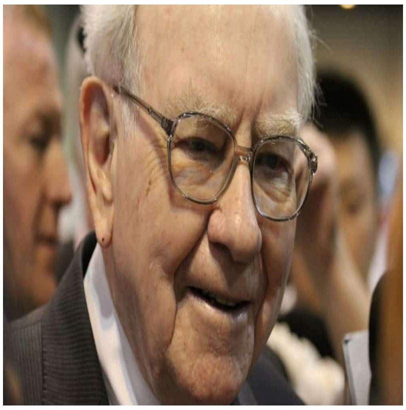

Don’t Waste the Stock Market Crash! I’d Use Warren Buffett’s Strategy to Profit From it

### Description

The 2020 stock market crash may have left some investors feeling cautious about the idea of buying shares. A weak economic outlook and political risks in Europe may mean that they sell equities and invest in lower-risk assets.



However, investors such as Warren Buffett have previously avoided such a strategy. Instead, he has sought to use a market decline to his advantage. It enables him to buy high-quality companies when they trade at low prices. Over the long run, this can produce impressive returns that lead to outperformance of indexes such as the S&P 500 and FTSE 100.

## Buying cheap shares after a stock market crash

The stock market crash has caused a wide range of companies to trade at relatively low prices. Certainly, some sectors have recovered in recent months. However, others such as financial services companies, energy businesses and leisure stocks continue to trade at prices that are lower than their historic averages.

Warren Buffett has always sought to buy companies when they offer a wide margin of safety. In other words, when they trade for less than they are worth. This is often caused by temporary weak operating conditions that could give way to an improving outlook over the long run. Therefore, buying cheap shares that have the potential to recover could lead to impressive capital returns that are ahead of the wider index.

## Focusing on quality stocks

Of course, not all shares will recover after a stock market crash. Some businesses may fail to evolve in line with consumer tastes. Or, weak operating conditions may mean that their poor financial positions are exposed.

Therefore, Warren Buffett has sought to purchase high-quality stocks after a market decline. For example, they may be businesses with low debt levels that mean they can outlast their sector peers during a period of challenging operating conditions. Similarly, they could be companies with wide economic moats that enable them to outperform sector peers in a weak market and as the economic outlook improves.

As such, focusing on strong businesses with a competitive advantage could be a means of improving an investor's prospects after a stock market crash. It may reduce risk and improve long-term returns.

## Buffett's long-term view

Recovering from a stock market crash can take a prolonged period of time. For example, it took many companies several years to fully recover from the effects of the global financial crisis.

As such, investors such as Warren Buffett have been successful because they allow their holdings a long period of time to fulfil their potential. This can mean disappointing returns in the short run if the market experiences further volatility and declines. However, a patient approach can be beneficial to an investor's returns in the long run. It could lead to market outperformance and a higher portfolio value in the coming years.



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