



How Buffett Earns His Retirement Income

Description

A stock market is also a place where you can get some of the highest returns, but they come with risk. If you want to try your hands in stock market investing, a good way to start is by following the big names like Warren Buffett, who have made their fortune from investing in the stock market.

At age 90, Buffett has \$85.6 billion in retirement. He built his wealth by making mistakes, learning, and improving on them. In his +70 years in the stock market, Buffett has lost money in some investments but has recouped the losses from other investments. He always took a calculated risk by balancing risk and reward through diversification. He looks at the market crash as an opportunity to buy fundamentally strong stocks at heavy discounts. As he says, "Bad news is an investor's best friend."

How Buffett safeguarded his retirement money from the pandemic crisis

At the start of the COVID-19 pandemic, when the world was in a state of panic and encashed their stocks, Buffett just sold airline stocks. He invested in airline stocks a few years back, as they managed to generate multi-year positive free cash flow. But he knew that the [world changed for airlines](#) when the pandemic wiped away all positive cash flow and pulled them into deep debt.

Airlines spend almost 90% of their revenue on operating expenses. If they are not flying, they are just burning cash. And no news can change their fundamentals in the short term. Their road to profit is more than five years long. Hence, Buffett did not hesitate to sell \$6 billion worth of airline stocks, even if it was for a loss. He knew he could recoup the losses elsewhere.

Buffett invests for the long term, as he wants to harness the power of compounding. If your investing style is like Buffett, stay away from airline stocks. **Air Canada (TSX:AC)** stock rallied 70% in November on investor optimism around the COVID-19 vaccine and is now seeing a correction as its fundamentals look dicey. Putting your retirement savings in such high-risk stocks will leave you working after 65 years of age.

So, if you own AC stock, sell it now while the price is still above \$25 and safeguard your retirement money from the pandemic uncertainty. That's a good exit point for a risky stock like AC, which will not

see profits for another two years.

How Buffett is increasing his retirement income

While it is important to exit risky stocks and safeguard your money, it is also important to increase your money. Rather than hoarding cash, put that money to work by investing in fundamentally strong stocks. Buffett increased his retirement income by making his biggest investment of the pandemic. He purchased **Dominion Energy's** natural gas transmission business for [US\\$8 billion](#) in November.

He made other purchases, like pharma stocks, Japanese trading companies, and even a tech initial public offering (IPO). But none of these purchases were as big as pipeline purchases.

Even you can put a major portion of your money in the pipeline business by investing in **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)). The company has a 25-year history of paying incremental dividends that rose at 11% CAGR. For instance, let's say your grandparents gifted you Enbridge stock on your first birthday. At that time, the investment paid \$100 in annual dividends. On your 25th birthday, you would've gotten dividend income of \$1,360. Now that's a gift that will stay with you for a lifetime.

Enbridge has the potential to pay incremental dividends for another 20 years. It has many pipeline projects coming up. The more pipelines it builds, the more toll cash it will collect for transmitting oil and natural gas. Unless North Americans stop using oil and natural gas or a natural disaster destroys most of its pipelines, Enbridge will keep earning cash and paying dividends.

Foolish takeaway

Save money for retirement and save your retirement money from the crisis the Buffett way. Exit risky stocks if you don't see future profits and enter value stocks while they are still trading at discount.

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