



Warren Buffett: How to Prepare for a Market Crash

Description

The stock market trades at near all-time highs, driven by positive vaccine news. However, before vaccines get to the public at large, new COVID-19 cases are still surging and can pressure governments to put tighter restrictions around parts of the economy again.

Additionally, vaccine programs might not be effective — there could be hiccups in the distribution process. If enough people choose not to take part, there won't be herd immunity.

If the economies were to shut down again, the stock market would be impacted — and another market crash is very possible.

Investors can look to one of the greatest investors of our time, Warren Buffett, on [how to prepare for a market crash](#).

How Warren Buffett stashes cash

By holding cash, investors can take advantage of market crash opportunities or even dips in specific stocks in everyday market volatility. Buffett ensures **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) generates lots of cash all the time. He also ensures that Berkshire holds a substantial amount of cash (about \$20 billion) as a buffer for anything bad that could happen.

In its latest quarterly report, Berkshire and its subsidiaries held close to \$146 billion in cash and short-term investments in U.S. Treasury Bills. If you combine that amount with Berkshire's stock portfolio, the cash portion makes up about 36% of the portfolio.

Buffett built Berkshire's business model to revolve around cash generation. Berkshire's underlying insurance business generates float as a source of low-cost capital. The float was \$39 million in 1970. By 2019, it had grown to \$129,423 million.

Berkshire's subsidiaries, such as railroad, utilities, and energy businesses also generate substantial cash flow. In the past three years, in aggregate, they brought in more than \$40 billion of revenue.

Despite the pandemic throwing off a lot of businesses, his subsidiaries aren't fazed. They look like they're going to continue bringing in more than \$40 billion in revenue this year.

Moreover, many of Berkshire's stock holdings also pay dividends. For example, due to Buffett's early purchase of **Coca-Cola**, his cost basis on the beverage giant is super low and he generates an outsized yield on cost (i.e., massive dividend income) from the shares.

Dividend stocks you can buy now

Buffett positions Berkshire to generate cash flow. You can do the same with a portfolio of dividend stocks. This way, on top of your regular income, you can have extra passive income that you can reinvest into your portfolio. The reinvested income will be put to work most effectively during a market crash.

Since no one knows when the next market crash will descend upon us, if you are sitting on tonnes of cash, you might begin nibbling on proven dividend stocks. Here are some reasonably-priced blue-chip [dividend stocks](#) you can start buying for passive income now.

- **Royal Bank of Canada** yields 4.1%
- **TELUS** yields 4.9%
- **Fortis** yields 3.8%

The Foolish takeaway

To prepare for future market crashes, get used to the idea of generating income — lots of it. For example, you'll generate income from your job. You can also generate income from side gigs, rental properties, or your dividend stock portfolio.

It's easy to get started on a dividend portfolio nowadays compared to the olden days because researching, buying, and selling stocks can be done so easily through the internet.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. NYSE:BRKA (Berkshire Hathaway Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Stocks for Beginners

Date

2025/08/18

Date Created

2020/12/15

Author

kayng

default watermark

default watermark