Warren Buffett: How to Invest in the 2021 Stock Market Crash

Description

The calendar is turning to a new year, bringing hopes and fears of what lies ahead. Will the stock market rally further, or will it crash? No one knows. But if it does crash, you don't want to lose money. Warren Buffett has experienced many market crashes in his +70 years in the market. He has made money in most crashes. He said, "trade knowing that a crash will come but not knowing when that crash will come." Now that explains his cautious approach in 2020, when the stock market saw a speedy recovery on the back of a fiscal stimulus package.

The possibility of a 2021 stock market crash

Even Buffett can't time the stock market crash. If you could time it, there wouldn't be a crash. You can't tell when there will be a road accident until it is too late to press the brake. However, you can take precautions to reduce the impact of the crash. A market crashes when investors panic and start selling in bulk. They lose confidence in a stock because the business environment is beyond the control of companies.

In the 2009 financial crisis, investors lost confidence in the banking system and only trusted cash in their hands. In the 2020 pandemic crisis, investors lost confidence in businesses' capacity to withstand nationwide and global lockdown. But the stock market recovered rapidly, as the government put stimulus money in hands of millions of Canadians.

Going by economics, the stock market should crash between April and June 2021 when the government's recovery benefits start phasing out. When this stimulus money vanishes and the Canada Revenue Agency (CRA) takes away some or all emergency benefits, people might encash money invested in the stock market. That could trigger a stock market crash or a market correction. The market saw a similar correction in September, when the CRA replaced emergency benefits with recovery benefits.

How Buffett invests in a stock market crash

While you can't time the stock market, you can be prepared like Buffett. Prepare your Tax-Free Savings Account (TFSA) portfolio in such a way that you benefit in a rally and are safe in a crash. Market crash gives you the opportunity to buy good stocks at heavy discounts. But then you need to have cash at that time. One way to do that is to put a portion of your TFSA money in Dividend Aristocrats that have a history of paying regular and incremental dividends even in a market crash.

Enbridge (TSX:ENB)(NYSE:ENB) just fits the bill with 25 years of paying incremental dividends, even during the 2000 and 2009 crisis. It has maintained its record and increased its 2021 dividend per share by 3%, despite the pandemic.

As an infrastructure company, Enbridge faces risks such as delays in project completion, over budgeting, and any natural calamity that destroys infrastructure. But it also is rewarded when the project is completed and up and running. One project generates significant cash flows for years. Enbridge is at a stage where it has the largest pipeline infrastructure in North America. These projects are generating cash flows sufficient to pay incremental dividends, service more than $60 billion in debt, and invest in future projects.

Enbridge stock took a hit from the pandemic crisis. It is trading at a 36% discount from the pre-pandemic level that has elevated its dividend yield to 8.1%. If you invest $10,000 in Enbridge, it will give you $810 in annual dividend, even in a market crash. Now, this dividend income can come in handy to buy some good stocks at a lower price.

What to buy in a crash?

You can invest in **Lightspeed POS** stock in a 2021 market crash or even a market correction. In the September correction, Lightspeed stock fell 16% to $40. Those who purchased this stock in the correction saw their money more than double in three months. An $800 investment in this stock in September is now $1,750. This way you safeguard your money in a crash and enjoy the market rally.

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