



Warren Buffett: Get Ready for a 2021 Market Crash

Description

Warren Buffett once thoughtfully remarked, “Buy a stock the way you would buy a house. Understand and like it such that you’d be content to own it in the absence of any market.” I don’t know about you, but when I bought my first house, the due diligence documents could have filled a large binder. Yet, could I really say the same about my investment portfolio?

Speculating or investing?

It is an interesting check on whether I am investing as a speculator or an investor. A speculator will buy whatever is hot and then try to time a perfect exit. While I don’t have a problem doing that with a small “fun” portion of your portfolio, it is not really investing.

Investing is like buying a house or a business in the private markets. If you were to invest your hard-earned capital into a private business, chances are, you’d want to analyze the balance sheet, check out the assets, touch and feel the products, and get to know the management team. You’d want to ensure that time will only tip the odds of successful returns in your favour. You’d want to be sure that if even the stock market failed to exist, your business would still hold value to the world.

Warren Buffett’s strategy wins over the long run

This is thesis that Warren Buffett built his billions upon. Research the best businesses, invest in them, and hold them “as long as they remain good companies.” After a crazy year, markets are looking pricey. Many commentators are stating [the market could be due for a crash](#). Perhaps they are right. Yet it shouldn’t really matter. If you researched the best companies and plan to hold them forever, a market dip or crash won’t matter over the long term. In fact, it could be a great opportunity to double down on your investment thesis.

Forget the market. Buy top-quality businesses

The point is, market or no market, holding the best companies with a long time horizon is an investor's best bet to truly become wealthy. Warren Buffett built his career and billions on this principal. If I were to think of one company that fit the criteria for a very "permanent" investment, I would have to hand it to **Canadian Pacific Railway** ([TSX:CP](#))([NYSE:CP](#)). You don't get much more permanent than a railway — and Warren Buffett loves railways. In fact, **Berkshire Hathaway** owns one of North America's largest, BNSF.

CP Rail is an ideal Warren Buffett stock

CP is an attractive "long-haul investment" for a few reasons. First, in Canada, it operates in a duopoly with strong competitive barriers. Its transportation infrastructure is impossible to imitate and cost prohibitive to replicate. It is Canada's most cost-efficient method to transport mass tons of goods and raw materials. This business is not going away for a very long time. In fact, it is expanding. In 2020, CP saw some of its largest grain shipment volumes ever!

Second, like a classic Warren Buffett stock, it is good, but it still has room for improvement. For many years, CP underperformed competitors like **CN Rail**. Yet, now the company has undertaken a relentless approach to improving efficiencies. It consistently tweaks its operational formula to increase weight and volume, yet at less overall cost. This will pay off in stronger profit margins in the future.

Lastly, CP has ample land assets that it can monetize. It recently unlocked opportunities by developing a container terminal [partnership with Maersk](#) (great for an e-commerce world). All this to me spells out a great Warren Buffett stock. It has strong barriers to entry, room for improvement, and underlying opportunities to unlock value. The stock isn't cheap, but it is certainly one to buy on any market correction and then hold it forever.

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