Warren Buffett: The Biggest Lesson of 2020 Should Not Be Forgotten in the New Year

Description

I'm sure you'd agree that 2020 was an absolutely terrible year.

Surprisingly, it was a pretty strong one for the stock market, with the **S&P 500** up double-digit percentage points and the **TSX Index** barely nudging into the green for the year. If you'd held on during the February-March turmoil, you did quite well, and if you actually bought, you're up big. You may have a bit of the FOMO (fear of missing out) mentality heading into 2021, which will probably be a far better year for humanity with a potential end to this horrific pandemic.

With many sell-side analysts bullish on the new year, I'd urge investors to take a page out of Warren Buffett's playbook by proceeding with cautious optimism, because if a terrible year like 2020 can be a great year for the stock market, a great year can also be bad for stocks.

While I don't think 2021 will necessarily be a down year for the markets, I do think investors would be wise to pick their spots carefully, as Warren Buffett has, heading into an uncertain year that could still bring forth negative surprises.

2020: A brutal year that taught beginner investors a huge lesson

Not to spoil your New Year's celebration, but as investors, we need always to consider the downside risks and not attempt to time the markets, because odds are that even the most seasoned traders will not be right consistently. If this pandemic-plagued year has taught us anything, it's that the stock market is not the economy, and that timing the market is a bad idea, especially when things head south in a hurry.

Like the great Warren Buffett, investors should acknowledge the plethora of <u>uncertainties</u> that lie ahead, curb their FOMO emotions, and seek to avoid the pockets of overvaluation (like the potential bubble in **Tesla** stock), and do the "unsexy" things by reaching for value with dirt-cheap names like **Fortis**.

While you won't get rich off a name like Fortis over the short term, as you would by playing the speculative frenzy in the red-hot electric vehicle (EV) makers, ridiculously priced IPOs or white-hot Bitcoin, you can sleep comfortably at night knowing you won't be on the receiving end of a downturn once the party — which, in many ways, rhymes with the frenzy we had in the late 1990s — is over, and the latecomers are left holding the bag.

With Fortis, you won't get much in the way of negative surprises. A near-4%-yielding dividend alongside mid-single-digit annual dividend raises and a good amount of lowly correlated capital appreciation over time.

Warren Buffett is more than willing to look wrong over the short term if it means improving his portfolio's long-term risk/reward

Warren Buffett couldn't care less about chasing hot stocks. He's more than willing to stay on the sidelines than run the risk of being caught offside with a momentum stock that could reverse without a moment's notice.

You see, Warren Buffett's success is not from a crystal ball. Although he is referred to as the Oracle of Omaha, he actually has no idea where stocks or the economy are headed over the near term. He sticks with what he knows while acknowledging what he doesn't know; he watches investment frenzies comfortably from the sidelines; he's more than willing to wait for opportunities to come around, and once they do, he won't hesitate to back up the truck.

Foolish takeaway

Although 2021 should be a better year than 2020, don't expect stocks to reflect such. Remember, the stock market is a forward-looking instrument, and downside risks should never be discounted just because everybody else is euphoric over their recent gains.

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