Warren Buffett: Do This to Survive a Market Crash

Description

If anybody knows how to survive a market crash, it's Warren Buffett. In the 55 years since he took over **Berkshire Hathaway**, Buffett has survived many a bear market, coming out bigger and better than ever. That's no small feat. Countless investment firms have closed over the years, because of abysmal performance during market crashes. Long-term capital management is one frequently cited example, and there are many others.

Buffett's prudent investing strategy has helped him avoid such a fate. By hoarding cash and buying dips, while keeping leverage to a minimum, he has avoided the worst pain the market has to offer.

But if you think Buffett's strategy is as simple as being "greedy when others are fearful," think again. While Buffett does indeed recommend buying in bear markets, there's a lot more to his strategy than that. In fact, the *real* key to his strategy may be *how* he ensures he's able to buy said dips in the first place. In this article, I'll explore exactly how he does that.

Maintain lots of liquidity

The biggest key to Buffett's investing strategy is to maintain a lot of liquidity. When you think of Buffett, you might think of big acquisitions and aggressive stock market investments. But the truth is that he usually keeps $100 billion or more in cash and equivalents — specifically, in treasury bills. By holding treasuries, Buffett gets a small no-risk return and has the liquidity needed to buy when stocks are cheap. This is how he is able to capitalize on bear markets *without* getting over-leveraged.

The true reason for Buffett's huge cash pile

If you read a lot of financial news, you might have heard a bit about Buffett's "cash pile." That is, money he has in cash and equivalents to spend on investments later. Usually, this "cash pile" is mentioned as if it's a bad thing. Any money Buffett has in 1% treasury bills, the theory goes, isn't delivering a significant return to investors. So, why not invest it?

As it turns out, this “cash pile” is actually one of the secrets to Buffett’s success. By holding cash, Buffett enables himself to pounce when the markets are down — *without* using leverage. As a result, he’s been able to buy stocks at veritable bargains again and again with zero financing costs.

A worthy Buffett pick?

If you think Buffett’s investing style is worth emulating, there are a few stocks you could consider buying today.

Suncor Energy (TSX:SU)(NYSE:SU) is a Canadian stock that Buffett owns. Like many stocks Buffett buys, it’s beaten down and trading below book value (assets minus liabilities). In 2020, Suncor got ravaged by the COVID-19 pandemic and suffered three losing quarters in a row. That might sound bad, but the company is likely to recover. In the meantime, you can buy it for less than the value of its assets (net of debt), thanks to the negative sentiment in the market. This is the kind of opportunity Buffett uses his cash pile to pounce on. And indeed, he did pounce on it this year, buying up Suncor stock in the second quarter.

Of course, the ultimate “emulate Buffett” play is to simply buy Berkshire itself. With Berkshire’s class B shares you get a slice of Buffett’s entire portfolio without having to worry too much about the individual stocks in it. But if you’re looking specifically to buy *Canadian* Buffett-owned stocks, Suncor is a worthy one to consider.

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