Warren Buffett: Don’t Panic. It’s Only a Market Crash

Description

In 2021, market crash fears are riding high. Markets ended last week on a down note, and some think it could get worse. Nobody really knows what the markets are going to do from one day to the next. But with markets up from mid-2020, despite ongoing economic weakness, some think the house of cards has to come crashing down eventually.

For many investors, a market crash is a major cause for concern. Attempting to time their investments, they need to “take profits” before the markets come tumbling down. This approach requires frequent buying and selling and constant attention to daily market moves.

Warren Buffett sees things differently. As a long-term investor, he prefers to “ride out” crashes and buy the dip. This approach may seem counterintuitive. But it has earned Buffett about a 20% compound annual return over 55 years.

Warren Buffett’s philosophy for dealing with market crashes

Warren Buffett’s philosophy for dealing with market crashes is simple:

- Maintain a lot of liquidity.
- Be patient.
- Buy the dip.
- Only sell if the underlying company is actually in serious trouble.

For decades, Warren Buffett has reliably held stocks through market crashes, taking temporary losses on the chin and seeing downturns as opportunities to buy more. In 2020, we saw that Buffett will occasionally sell out of crashing stocks if the business genuinely looks like it’s in trouble. That year, Buffett exited his entire position in airline stocks — a rare move for the man who had been a net buyer every single year until last year. The move showed that Buffett is not above exiting a position if it looks particularly bad. Still, his general tendency is to hold the line.

“If you can’t handle losing 50% in stocks, you shouldn’t own stocks”

Buffett’s philosophy on market crashes is perhaps best articulated by his business partner, Charlie Munger: “It can be argued that if you aren’t prepared to lose 50% in stocks, you shouldn’t own stocks.”

Munger said those words in an interview with *CNBC* during the Great Financial Crisis. Since then, he and Buffett have mostly stuck to them. The airline exit was a rare instance of the pair cashing out a losing position. But otherwise, they’ve been remarkably willing to wait out bear markets over their 55-year career.

Putting his money where his mouth is

When it comes to buying in bear markets, Buffett puts his money where his mouth is.

In the second quarter of 2020, Buffett went ahead and bought **Suncor Energy** (TSX:SU)(NYSE:SU) stock after it had fallen 50% in the markets. He already held the stock before its massive selloff — he’s down on the portion that he bought in 2018. For most investors, these moves may seem counterintuitive. If you’re losing money on a stock, wouldn’t you sell? After all, Suncor didn’t just decline in the market — the company itself lost money three quarters in a row. In one of those quarters, it lost a truly staggering $3.5 billion.

Yet for Warren Buffett, such moves are par for the course. Buffett has long seen market downturns as opportunities to buy. Even when the company itself is losing money, he’ll often buy if he thinks it has strong prospects for recovery. In 2020, we saw Buffett do that with Suncor — despite the company’s sorry state that year. And there have been countless other examples over the course of his career.

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