Warren Buffett: If the Market Corrects, Do This

Description

If a stock market crash or correction hits, it pays to be be prepared.

If you need proof, just look at Warren Buffett.

Over the years, Buffett has capitalized on many a market crash by stashing cash and buying low. While Buffett is often criticized for his massive "cash pile," which is thought to deliver no value to shareholders, the truth is that this cash is crucial to Buffett's entire strategy. By keeping money in cash and equivalents, Buffett is able to buy the dip when the time is right. Over the years, this has helped him accumulate a massive fortune.

In this article, I will explore Warren Buffett's strategy for dealing with market crashes in detail.

Step one: Have money saved

The first step to investing like Warren Buffett is to have cash on hand. Buffett doesn't buy stocks on margin or rely extensively on options. Instead, he saves cash received from his businesses and uses it up to buy when the time is right. In practice, the "cash" Buffett holds is actually treasury securities. In your case, the same thing could be achieved by saving money in a high-yield saving account or a GIC.

Step two: Buy the dip

The second step in Buffett's market crash strategy is to buy when stocks are down.

By saving money, you establish a supply of funds you can use to buy when the time is right. That "right time" is during a bear market. It stands to reason that if a business is growing at a rapid pace, then a decline in its share price represents a buying opportunity. Doubly so if it's down a lot — like in the market crash witnessed during March 2020. By buying during such crashes, you realize better returns than you would by buying in overheated markets. Over time, the difference really starts to add up.

An example of Buffett's strategy

A classic example of Warren Buffett's market crash strategy is his **Suncor Energy** (TSX:SU)(NYSE:SU) play.

In 2018, Buffett bought Suncor Energy shares when they were over $40. At the time, the shares looked undervalued and had a high dividend yield.

Later, though, COVID-19 hit. Suncor energy ran a massive $3.5 billion loss in the first quarter of 2020, and its shares promptly declined by more than 50%.

Did Buffett sell?

No!

Instead, drawing on the massive cash pile he had accumulated over the years, he doubled down. In the second quarter, when SU stock was in the $20-$30 range, Buffett bought more of it, getting a lower price than he could have gotten before. Now, his *total* position has more potential to rise in the post-COVID economic recovery. Sure, it may be a long time before Buffett realizes a gain on his earlier 2018 purchase of Suncor Energy shares. But the portion of the position he acquired this year has the potential to rise rapidly. And it's all thanks to the fact that Buffett kept cash on hand to pounce on last year's market crash.

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