Retail Investors: In Times of Turmoil, Follow These 3 Rules

Description

Seth Klarman is one of the best investors in the world. He's lesser known than other gurus, but he has the credibility to match. Buffett once named him as the successor to his legacy.

When Klarman speaks, industry insiders listen. His latest comments left many nervous.

Klarman is worried for investors

In a recent letter to investors in his fund, Klarman painted a scary picture of the future.

"With so much stimulus being deployed, trying to figure out if the economy is in recession is like trying to assess if you had a fever after you just took a large dose of aspirin," he explained. "But as with frogs in water that is slowly being heated to a boil, investors are being conditioned not to recognize the danger."

This is a warning heralded by many experts. Low-interest debt is fueling a security buying spree like few others in history.

"The biggest problem with these unprecedented and sustained government and central bank interventions is that risks to capital become masked even as they mount," Klarman stressed. Governments have "directly contributed to exceptionally benign market conditions where nearly everything is bid up while downside volatility is truncated," he added. "The market's usual role in price discovery has effectively been suspended."

His conclusion is simple: investors are stuck in a market that's adrift with no one at the wheel.

Be cautious with these stocks

Many experts use the term *zombie stocks* to explain the current environment. Businesses that should be valued much lower, sometimes all the way to zero, command sizable market caps. Two Canadian companies fit the bill.

Consider **Air Canada** (TSX:AC). The company lost nearly $1 billion every quarter last year. It's expected to lose millions of dollars per day for several quarters to come. This is clearly unsustainable.

But with access to government wage subsidies and low-cost debt, the company has been able to survive. In the last financial crisis, we saw countless airlines go bankrupt. This time, airline stocks like Air Canada still have multi-billion-dollar market caps. Don't be surprised to see investors left holding the bag.

Enbridge (TSX:ENB)(NYSE:ENB) is another example. This company's debt has a greater value than its entire equity base. It's a highly leveraged business completely dependent on fossil fuel consumption. Yet this year, **BP** warned that global oil demand has already peaked. With investments in renewables continuing to climb at a rapid pace, the long-term picture for fossil fuels is dire.

Yet Enbridge stock is largely unscathed and still pays investors an 8% dividend. Something is not right here. When interest rates normalize, this business could be in trouble.

Rules for success

Many experts are sounding the alarm, but timing the market is incredibly hard. Ray Dalio compares it to playing poker with the best. Despite the fear, most gurus aren't panicking. Charlie Munger, Buffett's closest partner, recently said that bargains are still available, they're just a little harder to come by.

In times of turmoil, stick with three valuable rules. First, don't panic. Second, maintain a long-term time horizon. Third, always do your own research.

Those rules are hard to apply in practice, especially when times get tough. But being patient, calm, and educated about what you own are timeless advantages.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:AC (Air Canada)
3. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Date
2025/07/19
Date Created
2021/02/05
Author
rvanzo