



Stock Market: Warren Buffett Shows Us How to Make Money

Description

After having spent more than 70 years in the stock market and having earned a fortune from past crises, Warren Buffett is the right man to learn about investing from. After the March 2020 stock market crash, most analysts, including me, were anticipating another crash. But that's the thing with a crash: you don't know when and how it will come. How does Buffett make money in a correction?

The economics of a stock market crash

The stock market crashes when a macro event blurs the future of business and creates panic among investors. If you are expecting the worst, you have already priced in your fear in the stock price. For instance, in the March 2020 crash, there was a sudden surge in the coronavirus cases, and all major economies announced nationwide lockdowns. This blurred the future of business.

At times of crisis, people lose trust in the market and other investment instruments. Hence, they pull out all their cash and invest in gold. As the stock market sees a huge outflow of money, it crashes.

The stock market 2021

Last year, the stock market recovered quickly after the March selloff, because the government injected billions of dollars in stimulus money into the economy.

As Canadians got \$2,000/month in stimulus money, they were not cash strapped and they did not panic. People were no longer spending on restaurants, holidays, and travel. They also had plenty of time to read and research. Hence, they put their money in the stock market that inflated the stock prices.

Now, I feel the stock market could see a correction in April when people have to file their taxes. April is also when many people who have been regularly collecting the Canada Recovery Benefit (CRB) will exhaust their maximum limit. This could be a repeat of [September 2020](#) when Canadians paid their taxes, and the Canada Emergency Response Benefit (CERB) ended. At that time, the **TSX Composite Index**

fell 6.7%.

I expect the index to correct 3-5% in April and May, as people will cash out their money to pay taxes and have an alternative for stimulus money. But the market may or may not correct; the fact that you are expecting a correction lessens the fear in the stock market.

Warren Buffett's contrarian investing never goes out of style

Buffett said, "Be greedy when others are fearful, and be fearful when others are greedy." That's a contrarian style of investing, where you invest against the trend. You invest in stocks that others fear, but only because you expect the stock to surge in the long term.

You can't keep waiting for a market crash. Buffett also said, "If you wait for the robins, spring will be over." The secret to making money in the stock market is to "trade knowing that a crash will come but not knowing when that crash will come." So, don't keep waiting for a crash. Buy the stock you have been eyeing when you get an opportunity, even if the stock price has recovered slightly.

Buffett's contrarian buys

Last year, Buffett played his contrarian bet on energy stocks **Chevron** and **Suncor Energy**. He also invested US\$8 billion in the natural gas transmission business of **Dominion Energy**.

You can replicate Buffett's magic by investing in **TC Energy** ([TSX:TRP](#))([NYSE:TRP](#)), the energy infrastructure company. TC Energy is a dividend stock and has been [increasing its dividend](#) per share at a 7% compound annual growth rate. The stock is still trading at a 24% discount from its pre-pandemic level, indicating that people are still fearful.

Even if the stock falls in a correction, you will benefit from a high dividend yield. That time you can buy more and lock in a high dividend yield. Oil and natural gas demand will return, as there is no substitute in abundance that can replace them overnight. TC Energy stock will surge when demand recovers.

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Author

pujatayal

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