Warren Buffett: How to Not Lose Money in the Stock Market

**Description**

The Oracle of Omaha Warren Buffett is known for his simple yet effective investing principles and his courage to accept mistakes. Remember, it is not wrong to make mistakes, but it is wrong to repeat the same mistakes. In his +70 years in the stock market, Buffett has lost money, but, in aggregate, his portfolio has gained money. One of his famous sayings is, "Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1." So, how does Buffett follow the first rule?



# Buffett's first rule: Never lose money

The stock market is a zero-sum game where one's profit is another's loss. Now the stock price is the investor's perception of the company's future earnings potential. If you can find an undervalued stock, the hidden diamond in the coal mine, you can win the stock market game.

Buffett's company **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) might see some short-term losses in a market crash, but it always makes money when the market recovers. He uses his fundamental and business logic to predict the future earnings of a company. If he sees a lot of money in the future and the stock trading at a discount, he buys it.

Buffett has had a fair share of his losses, but the difference is, he could afford to lose. In its latest annual report, Berkshire wrote down US$9.8 billion of Precision Castparts value, but it could afford to do so, as it reported a net profit of US$35.8 billion.

If you don't want to lose money, you need a well-balanced portfolio of high-growth, dividend, and defensive stocks. If there is a loss in one sector, profits from another sector should mitigate that loss and put you in net profit. In 2020, Berkshire's profit from **Apple** more than offset its loss from Precision Castparts, the aerospace and energy industries equipment maker.

Another way to avoid losing money is to exit the stock when you don't see growth. Buffett did not hesitate before exiting airline stocks in April 2020, as he saw no profit for the next few years. He learned this lesson from his 1962 textile mistake. He stuck to a loss-making textile company Berkshire Hathaway for 20 years, which cost him an estimated US$200 billion.

Learning from his mistake, he exited airline stocks, as he knew he could use this money in a profitable investment.

## Buffett: If the business does well, the stock eventually follows

Everyone had their eyes on Buffett when the market crashed this time last year. They were expecting him to make some big investments, as the crash had discounted good stocks. But he made some small bets of less than $10 billion. He invested US$8.6 billion in **Verizon** and US$4.1 billion in **Chevron** . These are essential goods and services that will always make money.

You will use oil and broadband. When the 5G momentum picks up, internet-connected devices will surge, and so will the internet usage, bringing more cash flow for the telecom giant Verizon. As for Chevron, it has an integrated model, which means it does everything from extracting, refining, and distributing oil. While the oil industry faces threats from renewable energy, there is no immediate replacement for oil in many applications, especially jet fuel. When an alternative comes, the transition will take years. Until then, Buffett will enjoy the 5% dividend yield, which is way better than the near-zero interest rate.



## How to avoid losing money in the stock market

Learning from Buffett, a defensive stock that can protect you from losing money is **BCE** (TSX:BCE)(NYSE:BCE), Canada's telecom giant. Telecom stocks don't grow much as they give good dividends and use the rest of the cash to build infrastructure. But the 5G revolution is different. It will connect everything — cars, traffic lights, drones, homes, and much more— to the internet. The end-device proliferation will lead to more plans and heavy usage. This, in turn, will lead to more cash flow.

BCE has already been increasing its dividends at an average annual rate of more than 5% for the last 12 years. It is now investing over $2 billion in network expansion and the 5G coverage. Greater outreach will accelerate cash flow growth and, therefore, dividends.

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pujatayal