Warren Buffett: Hold Cash and Prepare for Possible Market Disruptions

Description

Warren Buffett might be the GOAT of investing, but his prowess doesn't include predicting when a dramatic fall in stock prices will happen. In truth, no one is ever sure. The American billionaire has seen the worst economic downturns and made billions in some of them. However, you will not catch him unprepared for possible market disruptions.

The **Berkshire Hathaway** chief is a successful investor, because he has the right mentality more than intelligence. His mindset for investing differs from most. Buffett said regarding market downturns, "Predicting rain doesn't count; building the ark does." His tips when turbulence is coming include holding cash.

Defensive benefit

Three things are essential to Buffett: cash, financial reserves, and liquidity. He finds it difficult to choose an investment when the economy is healthy. You don't want idle money sitting in the bank. However, when there's a severe disturbance, you need enough cash to ride out the storm.

Having excess liquidity is a defensive benefit because you don't need to push the panic button. Berkshire Hathaway is always in a position of strength due to ample financial reserves. As of year-end 2020, Buffett's conglomerate had US$138.3 billion in cash.

Offensive mode

Warren Buffett also uses cash to his advantage. With plenty of money in his wallet, he can switch to offensive mode. He likens it to a business owner who is flush with cash. During difficult times, you can purchase goods at a discount and renegotiate friendly terms on contracts with your suppliers.

Berkshire Hathaway deploys cash when the right opportunity presents itself. Regarding stock purchases, Buffett will not swing at everything but will wait for the pitch. Furthermore, holding excess cash will not force him to sell his assets at a discount.

Buffett's philosophy is practical and should work wonders if investors adopt the strategy. He stayed on the sidelines at the height of the COVID-induced market correction. His company had the most critical resource at its disposal. Berkshire resumed its investing activities in Q2 2020 and is rebalancing its stock portfolio.

Cash cow

Even during these uncertain times, some investors use their cash to make more cash. The TSX has so-called cash cows. The TSX has so-called cash cows. **Summit Industrial** (TSX:SMU.UN) is a passive-income machine for dividend investors, notwithstanding the health crisis.

The $2.3 billion real estate investment trust (REIT) leases out light-industrial properties in high demand during the global pandemic. At only $13.72 per share, the REIT pays a 3.92% dividend.

Summit Industrial is an ideal investment in a Tax-Free Savings Account (TFSA). The $235.20 income you'll generate from your $6,000 TFSA contribution limit in 2021 is 100% tax-free. If you have more available room, the passive income could be higher. Investors who didn't panic and held onto the stock during the 2020 market downturn didn't lose money.

The industrial REIT delivered an 18.5% total return on top of the regular dividend payouts. Summit Industrial should attract more investors after posting total revenue and net rental income growth of 34.3% and 35.9% in 2020 versus 2019. The occupancy rate as of year-end was 98.5%, while the average lease term is 5.5 years.

Inflation: The enemy of investors

Warren Buffett knows when to hold cash and uses it when opportunities arise. He also invests in stocks to hedge against inflation — the enemy of investors.

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