Why You Shouldn’t Blindly Buy What Warren Buffett Buys

Description

In the space of 50 years **Berkshire Hathaway Inc.’s** book value per share grew from $19 to $146,186, equating to a rate of 19.4% compounded annually. Any investor would drool over that kind of growth.

To replicate that, some investors might think about imitating Warren Buffett’s moves, seeing that Mr. Buffett is the chief executive officer of the conglomerate holding company. However, there are reasons why Foolish investors shouldn’t blindly buy what Warren Buffett buys.

Buffett’s portfolio is different from yours

Mr. Buffett has been building this portfolio for 50 years. Because he started buying **The Coca-Cola Co** shares in 1988, he has a ridiculously low cost basis in it. Because of the low cost basis, he’s making a ridiculously high yield on cost on his investment. Unless you have a time machine, you cannot go back and buy Coca-Cola when he did.

Over time, Coca-Cola has become one of his biggest holdings, along with **American Express Company**, **Wells Fargo & Co,** and **International Business Machines Corp.**

Your portfolio likely has companies that Warren Buffett doesn’t own. Additionally, you probably have other asset allocations that are different from Warren Buffett’s allocations, including cash, bonds, mutual funds, and ETFs. Because his portfolio is different from yours, you cannot replicate his performance, and it doesn’t make sense to follow his moves.

Buffett has a different investment horizon and different goals

Warren Buffett’s favourite holding period is forever. He wants to hold quality companies forever because they tend to become more valuable over time and generate more cash for him in terms of dividends.

Your investment horizon may be different from his. You may be investing for a big purchase, or for your vacation that’s planned in two years. You may be investing for your child’s post-secondary tuition fee. You may be investing for your retirement. Or you may be investing for all of the above reasons. In that case, your portfolio may be divided into different parts, at least mentally in your head, so the above goals can be met.

Buying in U.S. dollars is costly for Canadians

Warren Buffett just bought 3.5 million additional shares of **Phillips 66**, an oil and gas refining company. Phillips 66 shares cost under US$81 right now. However, converting it to Canadian dollars would cost an extra 33% without accounting for the exchange fees your bank would charge you.

If you're looking for energy exposure for your portfolio, there are other options on the Toronto Stock Exchange that won't ding you. **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO), **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), and **Husky Energy Inc.** (TSX:HSE) all have refinery operations.

In conclusion

Foolish investors shouldn't blindly follow the moves of anyone. It's fine to look at how other people invest and what they invest in for ideas, but you should analyze your own portfolio, and think about your own goals, risk tolerance, and investment experience before making any decisions.

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