

## Why it's a Bad Idea to Buy What Warren Buffett Buys

### Description

Warren Buffett owns many great companies that have great management. His top holdings include **Wells Fargo & Co** ([NYSE:WFC](#)), **The Coca-Cola Co** ([NYSE:KO](#)), and **American Express Company** ([NYSE:AXP](#)). However, investors shouldn't just buy what other investors buy, even when they're legendary investors—including Mr. Buffett.

### Different portfolio

Buffett likes partnering with businesses for the long term, but even if that's a strong belief of yours, you shouldn't necessarily buy Wells Fargo when Buffett does.

What if you already own another diversified U.S. bank and you really shouldn't add more because U.S. banks already make up 10% of your portfolio? Are you going to switch to Wells Fargo just because Buffett buys it tomorrow?

Buffett's portfolio allocation is different from everyone else's on the planet. To replicate his success or get the kind of returns he's getting, the best way would be to invest in **Berkshire Hathaway Inc.** ([NYSE:BRK.A](#))([NYSE:BRK.B](#)).

Even though you don't get a dividend, you're likely to get above-average, long-term returns because Buffett is better at allocating capital than we are. But investors shouldn't overpay for Berkshire. When its price-to-book is 1.3 or less, investors can consider it for the long term. It is 1.36 times its book value at about US\$142 per share.

### Different goals

Buffett also loves dividends. You might also like dividends, but you should be willing to expand your stock investment universe. For example, **Facebook Inc.** ([NASDAQ:FB](#)) pays no dividend, but it should experience higher growth than dividend stocks.

Recently, Buffett bought more **Phillips 66** ([NYSE:PSX](#)) shares. It only yielded 3% at \$75 in the recent dip. What if you were a retiree and needed a minimum yield of 4% on all your investments?

### Valuation

Out of Buffett's top holdings mentioned earlier, Coca-Cola is probably too expensive to buy at present levels. It's trading at over 23 times its earnings. Wells Fargo and American Express are at more reasonable valuations with price-to-earnings ratios of 11.5 and 11.2, respectively.

### What if you replicate Buffett's every move?

You may rationalize that Buffett is a value investor, so whatever he buys is cheap. So, by following Buffett's every move, you should also make money. However, investors don't have Buffett's knowledge

and experience.

Are you certain that you're able to follow his moves and hold on to these assets even when they fall 50% in price? Even the best of the best investors can make mistakes—it's just not possible to pick winners 100% of the time.

## Conclusion

Investors should focus on their own portfolio goals and aim for satisfactory returns with acceptable risks. You define what your goals are, the satisfactory rate of return, and the kind of risks you are willing to take.

It's all right (in fact, it's encouraged) to observe and even study legendary investors' investment strategies and what they hold in their portfolios. From their holdings, you can decide if you want to own those businesses as well.

If yes, add them to your watch list, determine their fair values, and set target yields or prices based on the margin of safety that make you comfortable to become a part owner.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NASDAQ:META (Meta Platforms Inc.)
2. NYSE:AXP (American Express Company)
3. NYSE:BRK.B (Berkshire Hathaway Inc.)
4. NYSE:BRKA (Berkshire Hathaway Inc.)
5. NYSE:KO (The Coca-Cola Company)
6. NYSE:PSX (Phillips 66)
7. NYSE:WFC (Wells Fargo)

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