3 Timeless Investing Lessons From Warren Buffett's Annual Shareholder Letter

Description

Each year, thousands of investors eagerly await Warren Buffett's letter to **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) shareholders. It's filled with timeless wisdom, legitimately funny jokes, and some of the best investing advice you'll ever read.

This year's edition — which came out on Saturday — didn't disappoint. If you don't have time to read Buffett's letter, here are three of the most important lessons.

Buying and holding is key

Despite being one of the most successful investments of all time, it hasn't been all gravy for shareholders who got on board when Buffett took over 52 years ago.

Buffett has made a number of blunders over the years. By his own admission, the biggest was buying Berkshire Hathaway stock in the 1960s, which, back then, was a struggling textile company. Buffett was smart by limiting the capital that was reinvested into the company in the early days, but the machinery still needed to be maintained. If Buffett had used that capital to buy GEICO instead, he estimates he would be twice as rich today.

Berkshire Hathaway wasn't Buffett's only mistake. He and partner Charlie Munger bought a struggling department store in Baltimore in the 1960s. A few years later, they were lucky to break even when they sold. Buffett spent $434 million to buy Dexter Shoes in 1993. That investment is essentially worthless today. And Buffett issued nearly 250,000 Berkshire shares in 1998 to buy General Re, a reinsurance giant. General Re ended up being a thorn in Berkshire's side for years before finally the ship was righted.

Despite those big mistakes, Berkshire Hathaway shares have increased by 20.8% annually since Buffett took over.

The lesson here is as simple as it is powerful. Even the transcendent Warren Buffett makes mistakes. Patient investors were rewarded nonetheless. Remember this when one of your stocks suffers from temporary problems.

Don't worry about politics

Buffett has been a Democrat for decades now and vocally supported Hillary Clinton in the 2016 election.

We all know what happened. But unlike so many people who backed the losing side, Buffett didn't let the defeat affect his outlook at all. He bought billions of dollars worth of shares after the election and reiterated his bullish sentiment in this year's shareholder letter.

Buffett's message was a simple one: betting against American capitalism has been a silly bet to make over the last 250 years. And it will continue to be a dumb bet to make over the next 250 years — no matter who's in charge.

The same thing can be said for Canadian politics. I live in rural Alberta, so I'm surrounded by staunch anti-Liberal folks who overwhelmingly voted Conservative. No matter how loudly they shout down Justin Trudeau's policies, I refuse to let their voices affect any investing decisions I may make.

Share repurchases

While dividends get all the attention, Buffett has long been a fan of share repurchases … provided they're done at a smart price, of course.

One company I've always admired for its smart buybacks is **Telus Corporation** (TSX:T)(NYSE:TU). The company has reduced its total share count by 50 million shares since the end of 2013 with the total falling from 643 million to 593 million. Almost all of those repurchases were done at a price lower than today's price.

Telus has many other characteristics Buffett would love. It has one of the biggest moats in the Canadian market today. It does a terrific job not only retaining customers, but also passing through price increases. Telecom is a good business to be in, especially in a tightly regulated market like Canada.

The bottom line

Buffett has been incredibly generous sharing his investing knowledge over the years. He continues to advocate simple advice that regular investors can easily follow. This year's shareholder letter was no different.

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Date
2025/07/19
Date Created
2017/02/28
Author
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