



Is Warren Buffett Just Plain Lucky?

Description

Warren Buffett is undoubtedly the most famous, and most successful, investor of all time. He is one of the richest people in the world, and has consistently outperformed the S&P 500 over a prolonged period. Therefore, it is unsurprising that many investors will try to emulate his success.

Of course, due to the scale of success he has enjoyed and the difficulties associated in replicating it, some investors may feel that Buffett's investment performance may be down to luck rather than judgement. Here's why that does not seem to be the case.

Time period

If Buffett's outperformance of the S&P 500 had been over a period of one year, or even a handful of years, it could be argued that he had benefitted from a degree of luck. Even investors without experience can beat an index over a short time period, provided they are prepared to take sufficient risks. However, to achieve outperformance over a period of decades takes real skill and considerable effort.

Where Buffett has perhaps been better than anyone else is through his ability to perform well in a range of market conditions. A wide range of fund managers have excellent track records. However, they are often generated during a specific part of the economic cycle. In other words, they take more risk during boom years, or reduce risk during recessionary periods. Buffett seems to have been able to adapt his style to a range of economic conditions and scenarios in order to give consistent outperformance versus the wider index.

A successful method

Buffett has also employed a method which has been successful for other investors. Value investing has been a popular investment strategy for decades, and the principles it promotes are generally sound and logical methods of generating relatively high returns in the long run.

Certainly, Buffett has taken greater risk than many value investors have in the past. He has focussed

on a company's economic moat, rather than its valuation, in order to generate index-beating returns. He has apparently said he would 'rather buy a great company at a fair price, than a fair company at a great price'. As such, it appears as though he has taken the principles of value investing and put his own spin on them.

This includes his attitude to diversification. Unlike his mentor, Benjamin Graham, Buffett has held a relatively concentrated portfolio. While this means company-specific risk is higher than that of the wider index, the risk/return ratio appears to be highly favourable. This appears to be a better explanation of his outperformance, rather than it being down to luck.

Takeaway

While Warren Buffett's level of success may never be replicated by another investor, this does not mean he has just been plain lucky. He has generated S&P 500-beating returns over a long period and in a mix of economic environments. He has taken risks and adapted his style. As such, his success appears to be due to skill, rather than luck.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date

2025/08/27

Date Created

2017/05/23

Author

peterstephens

default watermark

default watermark