1 Warren Buffett Principle That Investors Should Adopt to Beat the Market

Description

It's quite remarkable how fast market sentiment took a 360-degree turn in just over a month's time to kick off 2018. There's no question that the lack of volatility last year was like the calm before the storm. But to the surprise of many investors, the party just kept getting better as the **S&P 500 Index** went parabolic in January.

At the time, billionaire investor Ray Dalio even went so far to say that investors would "feel stupid" for holding cash and not going all-in on what seemed like a free lunch from the market melt-up. Warren Buffett was one of the investors who had been hoarding boatloads of cash around this time. In retrospect, it was a genius move, although it may have felt "stupid" in the moment.

Not feeling so stupid after all

Fast-forward a month later and the S&P 500 corrected twice as excessive exuberance over the implications of Trump's tax cuts turned into panic as many feared Trump's aggressive protectionist tone would be the start of a global trade war, spelling a potential end for the bull market. Perhaps the general public didn't really know Trump's intentions as well as they originally thought when they piled into stocks whose valuation was suspect?

For a new investor, it was hard not to be an aggressive buyer of stocks in January. It's human nature to be greedy when times are good, after all. When the S&P 500 hit an inflection point amid one of the smartest investors of our time, Ray Dalio, issuing extremely bullish statements, I think the euphoria caused investors to forget Warren Buffett's timeless advice: "Be fearful when others are greedy, be greedy when others are fearful."

You've probably heard this famous Buffett quote ad nauseam along with a majority of do-it-yourself investors, but there's a huge difference between acknowledging a piece of advice and adopting it as one of your own investment principles.

Adopting this principle is hard, as doing so goes against human psychology. Buffett's teacher Benjamin Graham once said: "In the short run, the market is a voting machine, but in the long run, it's a weighing machine."

As we live in the moment, the day-to-day market fluctuations are primarily driven by the emotions of the masses. Like it or not, many of us are influenced by them despite a theoretical understanding of Buffett's principles.

It's difficult to not become frightened when markets are down +2% in a day or greedy if markets are up by that same amount. With the recent surge of volatility, many investors are probably experiencing gigantic mood swings on a day-to-day basis, which isn't healthy for one's portfolios. Emotional rollercoaster rides can cause you to follow the herd, leading you to buy at peaks and sell at troughs, losing huge amounts of capital in a very short duration of time.

Moreover, the only way to really have a contrarian mindset like Buffett is to live through the volatile times yourself and practise contrarian behaviour.

At the time of writing, markets appear to be in turmoil, so now is a great time to be a contrarian buyer of beaten-up stocks like **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) as investors flood to the exits.

Bottom line

Investing like Buffett is difficult, as many of our investing decisions are influenced by our emotions, whether we're aware of it or not.

Buffett was one of the few men who profited profoundly from the Great Recession. Come the next bear market or crash, he's going to do it yet again. He's hoarded cash of late and as markets weaken, he'll finally have the opportunity to put it all to work.

Unlike Buffett, however, many of today's investors, including professional money managers, haven't experienced investing through a bear market or crash. As a new investor, it's easy to look back on 2008 and tell yourself you would have bought at the bottom; however, actually doing so in the heat of the moment is difficult, especially if the financial media starts using the word *depression* after a +50% peak-to-trough decline.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Stocks for Beginners

Date
2025/08/16
Date Created
2018/04/12
Author
joefrenette