Why Warren Buffett's Investment Strategy Is So Hard to Follow and What to Do About it

Description

Warren Buffett's investment philosophy of buying and holding wonderful businesses at wonderful prices is easy to read and easy to understand (on paper), but when it comes time to apply his principles in real time, it's hard, especially if you're a new investor who's not confident in your abilities. Many things can derail an investment thesis. That's why I'd advise every do-it-yourself stock picker to create a watch list of stocks when they discover a business they'd like to own as a part of their own portfolios.

If the valuation isn't quite there, you'll need to be patient and wait for an opportunistic entry point. If you're looking at a stock that's surging past all-time highs with a valuation that's questionable. Set a lower limit for when you'd pull the trigger, and when a market-wide collapse happens, like the one we witnessed earlier this year, make sure you do some buying. And don't let the heat of moment cause your emotions to be involved with your investment decision. By adding a stock to your watch list with a range of when you'd be willing to buy, you're taking some of the emotional aspects out of the game when it comes down to pulling the trigger in the midst of tough times.

The lower the buy limits you set, the more patient you'll have to be. And you'll surely kick yourself from time to time if a stock continues roaring higher, moving further away from the original limit price you desired. This kind of thinking can cause you to make rash decisions elsewhere in your portfolio, buying stocks at their peaks and selling flat-lined stocks that could be on the verge of breaking out.

If you've really done your homework beforehand, with a solid long-term thesis intact, stick with it — no matter what price Mr. Market prices the stock over the short term. You'll keep telling yourself, "Why do I put up with the pain?" as the stock continues its decline, but if you're still confident in your thesis, stay the course, unless something has fundamentally changed between the time you bought and the time you're thinking of selling.

One stock that I've been incredibly bullish on is **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), a stock that's still fundamentally sound, but has been hit very hard over interest rate-related worries. Since Shaw's acquisition of WIND Mobile, I've been confident in Shaw's abilities to grow its wireless business such that it will capture an equal share of the subscriber base in the Canadian wireless market.

The cartel-like cost structure of the Big Three, I believe, will be coming to an abrupt end over the next few years, as Shaw's lower-cost product begins to disturb the controlled prices of wireless services.

The stock has been tough to hang on to, and the +4.4% yield didn't smooth out the terrain at all. But such movements shouldn't cause you to sell if you're still confident in the underlying business's abilities. Such declines are a gift courtesy of Mr. Market and should be treated as an opportunity to add to a position.

It becomes a problem if you don't have cash on the sidelines to buy more, however; thus, it's always important to remember not to purchase an entire position from the get-go, because odds are, you're not buying at or around a bottom.

Stay hungry. Stay Foolish.

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