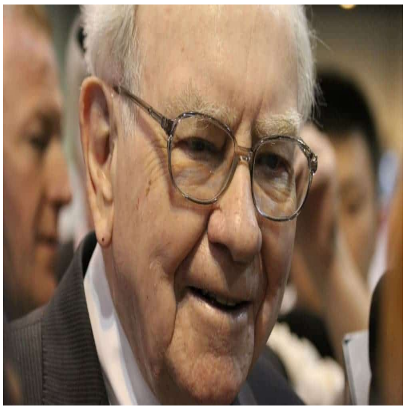

# 1 Reason Why Anyone Can Invest Like Warren Buffett

## Description

When it comes to being a successful investor, there are a variety of different strategies which can be adopted. And while it may seem as though a simple strategy is unlikely to outperform ideas which are more challenging to grasp, the reality is that this is not the case.



Evidence of this can be seen in the performance of Warren Buffett over a prolonged time period. He has become one of the wealthiest people in the world through the consistent application of relatively simple investment principles.

His focus has mostly been on ‘buying great companies at fair prices’. By doing likewise, it may be possible for any investor to become increasingly successful when it comes to generating a higher return over the long run.

## Great companies

While defining a company as being ‘great’ is clearly subjective, Buffett takes a relatively straightforward approach in determining the strength of a particular stock. His focus is usually on its economic moat, which is essentially a competitive advantage versus sector peers. This could be, for example, in the form of high customer loyalty, which may allow stronger margin growth over the long run. Or, it could be a lower cost base which provides a more efficient business model that is difficult for rivals to copy.

## Management

As well as a competitive advantage, Buffett also focuses on the strength of a company’s management team. If a business with modest debt, a significant competitive advantage and strong cash flow does not have the right management in place to deliver the right strategy, it is unlikely to generate rising profitability.

Of course, assessing the strength of a management team can be challenging for an investor. However, annual reports provide information on a management team’s past positions. Likewise, the overall strategy of the business may offer clues as to whether they are moving the company in the right direction.

## Value

When it comes to valuing a business, there are clearly a wide range of metrics which can be used. Some ratios are more useful than others in specific industries, and this can create some confusion for investors.

Buffett, as ever, keeps it simple when it comes to valuing a business. It appears as though he focuses on cash flow and the potential for it to grow over the long run. If the present value of future cash flows is more than the current valuation of the business, then it may prove to be of interest to him. However, a margin of safety would also need to be factored in, with Buffett happy to remain patient in order to buy stocks when they trade at a discount to their intrinsic value.

## Takeaway

While assessing a company's strength, management and valuation may seem complex, Buffett is able to adopt a relatively simple methodology which has worked for him in the long run. Following a similar method which is also simple could help to boost an investor's portfolio performance in the long term.



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