



Are Simple Mistakes The Only Reason You're Underperforming Buffett And Munger?

Description

Every investor makes mistakes. It is impossible to buy a stock when it is at its lowest ebb and go on to sell it at its highest point every time. In fact, it is estimated that even the very best investors are wrong around 40% of the time.

However, investors such as Warren Buffett and Charlie Munger, who have made \$billions in recent decades, generally avoid some of the more obvious errors which many private investors make. For example, they do not rush at any time, have significant amounts of patience, and are prepared to forego what prove to be golden opportunities if they are unsure about a potential purchase.

Moreover, if they do make a mistake, they act swiftly and decisively to fix it. Could doing likewise improve your portfolio returns?

Simple errors

Of course, Buffett and Munger are experienced investors. They have seen more booms and busts than the vast majority of private investors, and so have had time to refine their investing methodologies.

However, both of them have been highly successful for a prolonged time period. One reason for this is that they have long avoided the obvious mistakes which investors make. For example, they are prepared to wait for a number of years in order for the right investing opportunities to come to them. In other words, while a bull market is ongoing, they are less likely to make significant purchases. Similarly, they often become increasingly active during challenges for the stock market.

In contrast, private investors often become increasingly confident during bull markets. With their portfolios likely in profit, they may believe in their own ability more than they perhaps should, and this can lead to relatively poor results in the long run.

Furthermore, Buffett and Munger do not seek to crystallise a profit unless there is a better opportunity

elsewhere. This leads to [longer holding periods](#), which generally mean that there is more time for a company's management to deliver on their strategy. Private investors, meanwhile, often look to trade stocks, which increases transaction costs and can mean their portfolios lack stability.

Decision-making

As mentioned, every investor makes mistakes at times in their career. However, Buffett and Munger seem to be relatively unemotional when they make an error. Rather than worry about it and allow it to cloud their future judgement, they seek to fix it as quickly as possible. At times, this means selling stocks at a loss. While painful, the opportunity cost of investing elsewhere could be significant, and the logical move may be to sell up and move on.

Private investors, though, often wait for a stock to move back into profit versus the price which they paid. This can lead to not only greater losses and a lack of improved returns elsewhere, but also increased worry when in a loss-making position.

Takeaway

By focusing on simple, yet common, mistakes such as holding period, patience and how to deal with errors of judgement, an investor may be able to improve their portfolio performance. Given the recent fall in stock prices, now could be a good time to focus on a number of high-quality companies which trade on lower valuations.

CATEGORY

1. Investing

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/26

Date Created

2018/11/17

Author

peterstephens

default watermark