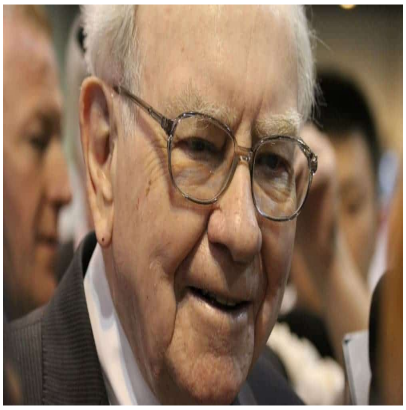

Following Warren Buffett Could Increase Your Chances Of Making A Million

Description

Following some of the world's most successful investors can be a sound strategy to enhance your portfolio returns. After all, investors such as Warren Buffett have relatively simple strategies which can be replicated to a large extent by private investors.

Notably, the 'Sage of Omaha' focuses on buying high-quality companies for a fair price. In doing so, he improves his investment odds through obtaining a margin of safety. Furthermore, he also invests only in companies that he fully understands. By following his lead in these two areas, it may be possible to boost your returns, while also reducing overall risk in the process.

Value investing

While value investing may appear to be little more than buying the cheapest companies around, in reality that is only part of it. 'Value' is not only made up of a company's stock price, but also its quality. This can entail its track record of earnings growth, whether it has a distinct competitive advantage versus sector peers, as well as its potential to generate improving financial performance in future.

As such, a stock may be cheap, but could lack the quality required in order to make it a good value investment. Therefore, Warren Buffett has been known to prefer 'great stocks trading at fair prices, rather than fair companies trading at great prices'. Through focusing on the strength of a business first, and seeking to only pay what it's worth, an investor may be able to improve their chances of making a million.

Knowledge

No investor can be an expert in all fields. They cannot be expected to have the required level of knowledge in order to invest with confidence in every industry which features within the stock market. As a result, investors such as Warren Buffett focus only on sectors in which they believe their knowledge is sufficient to fully understand the risks and potential rewards. Although this means that they may miss out on golden opportunities elsewhere, over the long run it can improve their returns, as well as reduce their risks.

For private investors, this could mean that they select a handful of industries where they have some basic knowledge. They then may wish to research those specific industries, rather than following the general movements of the stock market, in order to generate a competitive advantage versus their fellow investors. In doing so, they may be able to unearth value investing opportunities which have been missed by the wider stock market.

Takeaway

Although all investors would like to buy a stock for less than its current market valuation, being willing to pay a fair price for a high-quality stock could be a means of improving your long-term returns. Likewise, focusing on a smaller number of sectors may provide the opportunity to gain greater insights into potential stock price performance. In the long run, this could enhance your chances of making a million.

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