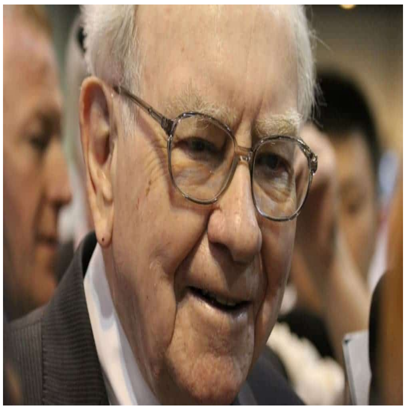

90% of Warren Buffett's Money Will Be Invested in This After He Dies

Description

The best investors have the ability to think long-term. The greatest investors take this ability to the next level and make decisions that will have repercussions beyond their lifetime. That's the sort of foresight that has made Warren Buffett one of the greatest investors of all time.

Now 88 years old, Buffett has repeatedly said his company has a transition plan in place and his personal estate has been planned well in advance. In a 2013 letter to his shareholders, he said that much of his vast fortune would be dedicated to charity as part of the Giving Pledge. The rest will be managed by a trustee for the benefit of his wife.

The trustee has been instructed to invest the funds in what could be considered the most straightforward portfolio of all time — 90% is to be invested in a low-fee United States index stock fund and 10% into short-term government bonds. The elegance and simplicity of this 90/10 allocation deserves closer attention from regular investors.

Here's the underlying logic:

U.S. dominance

Despite its many shortcomings, the U.S. economy is the most dominant force in the global financial system. With a gross domestic product of $20.5 trillion in 2018, the economy is still 51% greater than China's.

However, it's not all about size. Unlike China, the U.S. has an open and diversified economy that is dependent on internal consumption and issues a currency that is used as the global reserve.
In other words, America's borrowing costs are lowered because the government can keep issuing currency that serves as the global benchmark.

Meanwhile, the lack of dependence on international trade makes the country somewhat insulated from global turmoil, and the diversity of the economy (with technology, finance, energy and real estate contributing significant portions) is another strength.

Unbeatable market

This economic strength has been reflected in the stellar performance of the country's benchmark stock index — the **S&P 500**. Since the financial crisis ended in 2009, the S&P 500 has quintupled, while the domestic **S&P/TSX Composite Index** has merely doubled.

This means even Canadian investors might be better off investing in the U.S. economy alongside the Sage of Omaha.

The **iShares S&P 500 Index Fund CAD Hedged** (TSX:XSP) is, perhaps, the best way for retail investors in Canada to add this exposure to their tax-free savings account (TFSA).

Over the past 10 years, this index fund has delivered a 13.04% annually compounded rate of return. The index also offers a dividend distribution, with current yield hovering around 1.7%. Meanwhile, the management expense ratio is a relatively low 0.11%.

Since the index is hedged to the Canadian dollar, it mitigates the risk of currency volatility for investors. This means Canadian TFSA investors don't need to worry about the volatility of the USD-CAD exchange rate over time.

Bottom line

I like to watch what the smart money is doing to inform my investment decisions. No one, in my opinion, is smarter than Buffett. Which is why his relentless confidence in the U.S. economy and decision to leave his estate in a simple index fund has me convinced that at least a portion of my savings must be invested in the S&P 500 too.

For Canadian investors like me, the iShares S&P 500 Index Fund CAD Hedged is probably the best option for this strategy.

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