These 2 Rules Are Warren Buffett's Keys to Success

Description

Warren Buffett has two major rules when it comes to investing. The first rule is never lose money. The second rule is never forget rule number one. While it may seem impossible to never lose money, it's not as hard as you think. Even Warren Buffett, the greatest investor ever, has had some not so great investments on his track record. Nobody is perfect.

What Buffett is saying is that if you buy really amazing companies with solid economics for prices that are reasonable and you hold for the long term, there is a very strong chance you will never lose money.

Amazing company with great economics will always appreciate in the long run. Even if the day after you buy the stock, the market crashes by 50%, in 10 years down the line, that stock will most likely still have appreciated.

In addition, if you buy stocks only at reasonable prices, then it shouldn't be too hard or too long before the stock has risen and will continue to appreciate far into the future.

The most important factor — more important than picking the right stock or the right price — is managing your emotions. The only way to lose money is if you sell when the stock is down.

If you have bought a top-notch company at a very reasonable price and the stock market crashes 50% the next day, surely it would invoke the emotion of fear and you would be tempted to sell it.

However, if you have done your research and know the company is great and the price is fair, then it would be best not to pay attention and just ride out the storm.

Conversely, if you haven't done your homework, are not sure how well the company can perform long term, and are not sure if the price you paid is all that fair, you may want to sell it right away so as to not hold onto a loser.

This is why doing the research is so important, so you understand your company and you aren't influenced by your own emotions.

In addition, the research should always be done before an investment is made. Investors are much less objective when they don't own the stock, and there is no rush to buy it on any specific day. This gives you lots of time to find out everything you need to know and wait for a fair value.

If you were to do only mediocre analysis before you bought the stock, and then something in the market happened, your decision-making skills will be much less objective.

In addition, if you try and do the research after you bought the stock and something has caused a decline in prices, the timeline you have to research will be shorter, and as the stock moves around, it will continue to stoke more fear of loss, leading to poor judgement.

This is why doing the research ahead of time is so key; you know how well the stock is and that you bought it at a fair price, so it doesn't matter what happens tomorrow, because you know 10 years from now that stock will be much higher.

One stock you could buy today, hold forever, and not worry about is **Royal Bank of Canada** (TSX:RY)(NYSE:RY). Royal Bank is the largest bank in Canada by market cap. It has an impressive history, and given the industry it's in, in a highly regulated country like Canada, it is bound to continue to grow into the future.

The company has impressive operating numbers, with five-year average return on equity north of 17%. The dividend is another benefit for investors. It currently yields around 4% and has grown at a compounded annual growth rate of over 7.5% since 2014.

In addition, the share performance the last 10 years has also been rewarding to investors, with shares up almost 100%.

The growth is big but not huge; however, more importantly, it's stable, and the company is one of the best investments in Canada. Buying at a fair price and holding it forever will undoubtedly lead to the best results for investors.

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Date
2025/08/29
Date Created
2019/08/21
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