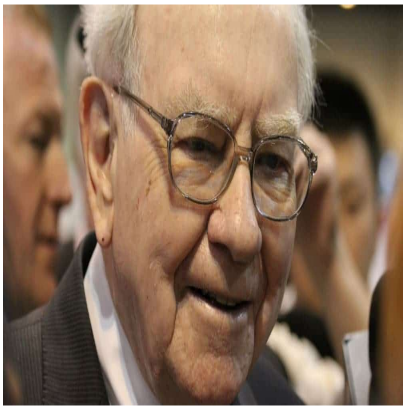

Forget Saving Money! I'd Rather Follow Warren Buffett to Retire Early

Description

Living within your means is unlikely to lead to an early retirement all on its own. The money saved each month needs to earn an above-inflation return to boost your spending power and create a nest egg that can deliver a generous passive income in older age. With interest rates on savings accounts being low at the present time, they are unlikely to catalyse your retirement prospects.

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As such, following a successful investor such as Warren Buffett could be a good idea. Through buying companies that have economic moats while they trade on low valuations, you may be able to generate high returns over the long run that lead to an early retirement.

Economic moats

The term 'economic moat' is used to describe a company that has a competitive advantage. This can take many forms, with it often being focused on a unique product that attracts a large amount of brand loyalty. Not only does this mean that a company's sales are likely to be more resilient, it can also produce higher margins for the company in question.

For example, a clothing business that has a strong brand may be able to sell its products for a higher price than a generic item. Likewise, a beverages company may be able to charge more for its brand of soft drink compared to a generic version of the product.

Through purchasing shares in companies that enjoy a wide economic moat, you may be able to improve your risk/reward opportunity. This could lead to a higher chance of generating a large retirement nest egg in the long run.

Value investing

Identifying companies with economic moats is just one part of Buffett's strategy. He also seeks to purchase stocks while they offer good value for money. This is a relatively simple idea, since it is usually a good idea to buy an asset while it trades at a lower price.

However, buying lowly-priced stocks can be a nerve-racking experience. Often, shares are only low because of challenges faced by themselves, their industry or the wider economy. As such, paper losses can be experienced in the short run that make many investors somewhat cautious about the prospect of buying cheap shares. However, in the long run, this strategy can pay off handsomely.

Long-term hold

Buffett is a long-term investor. He rarely sells a stock unless he has identified a fresh problem with it that has changed his opinion of its prospects. As such, he affords his holdings the time they need to deliver on their strategies and produce share price growth.

Adopting a similar approach may not improve your portfolio's performance in the near term. However, in the long run it can allow compounding to have a significant impact on your financial future. It may lead to a larger nest egg that allows you to retire early.

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