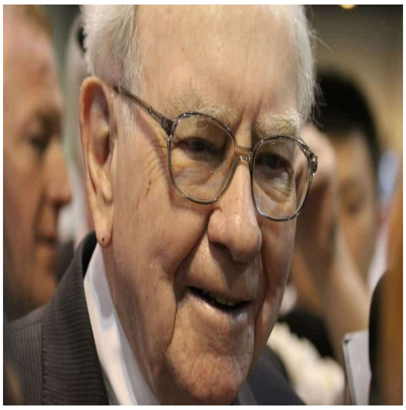

Why I’d Sell Property and Follow Warren Buffett’s Investment Tips

Description

Property may have generated high returns for investors in previous decades, but its appeal may be relatively low at the present time compared to the stock market.

With investors such as Warren Buffett having recorded high returns from buying shares when they trade on low valuations, now could be the right time to buy high-quality businesses while they offer wide margins of safety.

Furthermore, through focusing your capital on fast-growing economies and diversifying across a range of companies it may be possible to enhance your portfolio’s risk/reward ratio.

Cyclicality

Property prices and the stock market are both cyclical. Historically, they have experienced periods of growth and periods of decline. At the present time, the property market may be set to experience slower growth than has been achieved in the recent past. It has benefitted from a loose monetary policy which has been put in place by central banks across the world. This has led, in many cases, to high valuations which could inhibit the potential for further capital growth.

By contrast, a wide range of shares appear to offer good value for money at the present time. Certainly, stock indices such as the S&P 500 and FTSE 100 have experienced a decade-long bull market. However, the valuations of many of their members do not yet seem to be excessive. This suggests that further capital growth could be ahead. As such, adopting a value investing approach such as that used by Warren Buffett may allow you to capitalise on low valuations among high-quality businesses.

Growth opportunities

Alongside low valuations, the stock market also offers long-term growth opportunities. Unlike buying property, which is often in an investor’s locality, the stock market presents the chance to buy stocks that operate in a range of fast-growing economies. For example, an investor can purchase stocks with exposure to economies such as China and India. Since they offer significantly higher growth rates than developed economies, they could catalyse the return of a wider portfolio.

Additionally, investors have the chance to align their portfolio with the growth opportunities offered by sectors such as technology and healthcare. Both of these areas, as well as many others, could benefit from ongoing global economic trends. This may mean that their return prospects are relatively high, and that they outperform property investments.

Diversification potential

As well as accessing stronger growth rates, the stock market also offers greater risk-reduction opportunities than property. It is relatively simple and cost-effective to purchase a wide range of stocks. This enables investors with even modest amounts of capital to reduce the overall risk faced by their portfolio.

By contrast, buying multiple properties in a variety of regions is expensive, and can be logistically challenging. This may mean that property investors have a concentrated portfolio that inhibits their returns and increases risk. As such, following value investors such as Warren Buffett into the stock market could be a better idea.

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peterstephens