Warren Buffett: Has He Really Lost His Magic Touch?

Description

The year 2020 hasn't been kind to Warren Buffett. Year to date, **Berkshire Hathaway's** (NYSE:BRK-A)(NYSE:BRK-B) shares are down 25%, compared to just 12.3% for the **S&P 500**. Berkshire's stock price decline comes after a colossal $50 billion quarterly loss, and news that Buffett sold his entire stake in the airline industry.

His recent moves deviated from his historical tendency to "buy the dip" when stocks are cheap. Rather than do that, Buffett appears to have focused on preserving capital.

Some investors are starting to get irritated. A recent *MarketWatch* article shared the stories of several major investors who are considering ditching Berkshire stock. One of them, a popular finance blogger, said he'd already cut half his stake in Berkshire and may sell the rest.

Citing Buffett's failure to buy anything in March, he said that Berkshire was passing up on opportunities to build shareholder value.

Indeed, it does appear that Berkshire has missed opportunities–not only in March, but also over the last decade. Buffett's 2019 letter to shareholders reveals that Berkshire's portfolio under-performed the S&P 500 in 2011, 2015, 2018 and 2019.

Granted, there were some out-performing years in there too, but we're no longer seeing the kind of consistent market beating we once did. This fact has led to many people asking whether Buffett has lost his touch. The answer to that question may be both yes and no.

Buffett's approach to investing

For years, Buffett has followed a simple approach to investing. It consists of buying great companies at cheap prices. By all accounts, Buffett is still good at this. Despite the under-performing years mentioned earlier, Berkshire still beat the S&P 500 more often than not between 2010 and 2019.

When people talk about Berkshire under-performing the S&P 500, they're usually referring to

Berkshire's own stock price. BRK-A actually beat the S&P 500 on book value growth over the most recent 10-year period.

That said, the degree of outperformance is not as great as it used to be. In the 1960s and 1970s, there were many years when Berkshire quadrupled or quintupled the S&P 500. We haven't seen anything like that in a long time. Insofar as that's the case, it does look like Buffett has lost his touch — or at least, lost some of it.

The cost of getting into tech stocks late

One of the big reasons that Berkshire hasn't been out-performing as much as it used to, is because Buffett was famously late to get into tech stocks. Buffett's first major foray into tech was buying **Apple** shares in 2016.

While the investment paid off handsomely, Buffett was a little late to the party. If he'd bought earlier, he'd have netted a much larger return.

As of February 2020, FAANG stocks made up 18% of the S&P 500 market cap, which is largely thanks to a decade of handily beating the S&P 500 year in and year out. When you avoid a sector that drives much of an index's returns, it's hard to beat the index. And Buffett has largely done that over the last decade.

If you look at a tech stock like **Shopify Inc** (TSX:SHOP)(NYSE:SHOP), it has delivered far better returns than the typical value stock. Up more than 2,900% since its IPO, the stock has been a ten-bagger nearly three times over.

Buffett has historically avoided stocks like Shopify. Preferring to stick to what he understands, he likes cheap companies in fairly traditional industries.

The problem is, when you exclude the biggest growth sector from your portfolio, it's hard to outperform. That's not to say that Buffett should have bought Shopify. It's expensive in a way that would make even FAANG stocks blush.

But Buffett has avoided not only Shopify, but almost all of the past decade's big tech winners. If you want to outperform while playing it that safe, you've got your work cut out for you.

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