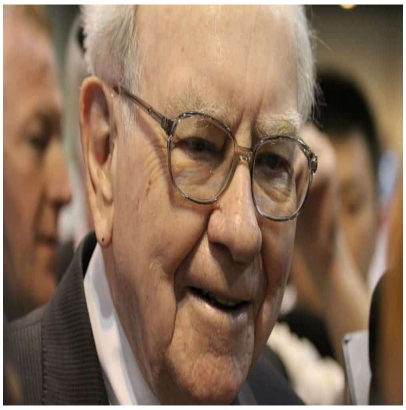

Warren Buffett: Don’t Pick Stocks, Do This Instead!

Description

Warren Buffett is undeniably the most famous stock picker in history. With a decades-long track record averaging 20% annualized, he’s stood the test of time. In recent years, Buffett hasn’t been doing as well as he once did, however.

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Despite his recent history, investors still look to emulate his plays. In the past, rumours that Buffett had bought a stock were enough to send the stock in question soaring. More recently, airline stocks tanked after Buffett announced that he’d sold them (prior to the news, they’d been trending upward).

In light of this, it might surprise you to learn that Buffett doesn’t think you should pick stocks at all. For years, he’s recommended a different type of investment for the average person.

Saying that it’s nearly impossible to beat the market without special information, he has recommended an asset class that doesn’t even aim to beat the market. Until recently, he’s avoided buying it himself. But now, he’s putting his money where his mouth is.

So what is this investment Warren Buffett is recommending instead of stocks?

Index funds

Index funds have been Warren Buffett’s top investment recommendation for the past decade. Delivering guaranteed market-average returns (minus a small fee), they give you about the same return as stocks overall. Of course, it depends on the specific index your fund emulates.

A **TSX Composite Index Fund** won’t get the same return as an **S&P 500** fund. However, the returns will be average for the benchmark they’re based on.

Some index funds to consider

If you want to directly copy Warren Buffett, you can buy the **SPDR S&P 500 ETF Trust.** That’s an index fund that Buffett actually owns. It's based on the S&P 500–the 500 largest stocks in the United States. Since 1970, the S&P 500 has averaged about a 10% annual return with dividends re-invested — a pretty good result overall.

That said, as a Canadian, you might wish to invest in Canadian funds. This spares you U.S. withholding taxes and can make you feel like you have a "home field advantage." The jury is out on whether such an advantage really exists, but feeling like you have it may inspire confidence.

If you *are* interested in Canadian funds, then the **iShares S&P/TSX 60 Index Fund** (TSX:XIU) would be a solid one to consider. It's based on the **TSX 60**–an index of the 60 largest publicly traded Canadian companies.

With an MER of 0.18%, the fees are low enough that you won't notice them. And, as a Canadian fund, its dividends aren't subject to withholding taxes.

Warren Buffett has never gone on the record as recommending *Canadian* index funds. However, the same thesis that led him to recommend U.S. ETFs applies.

By buying a Canadian index fund like XIU, you're getting a broad slice of Canadian business that should grow with the economy. Overall, one of the best defensive investments you can make.

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