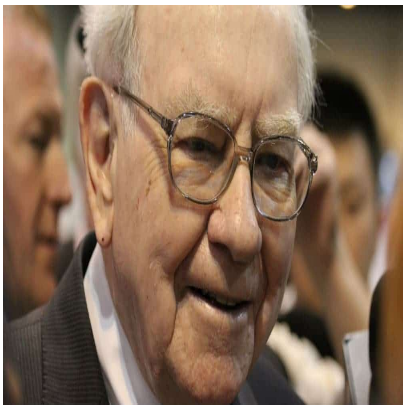

Warren Buffett Was Wrong: Why I Ditched Value Investing

Description

Warren Buffett's legacy and track-record is unparalleled. No other figure in the financial industry has had a larger influence than the Oracle of Omaha. Unfortunately, this influence seems to be receding.

The global economy and financial markets have changed in ways that have rendered the traditional value investing strategy obsolete. Reluctantly, investors like me have had to divert to other strategies to generate meaningful returns. Here's why I had to ditch the value investments playbook.

Diminishing returns

Value investing is simply buying stocks for less than they're worth. Stocks trading for less than their book value per share or less than the discounted cash flow are considered value opportunities.

However, these stocks need a catalyst to deliver returns. In other words, the stock price needs to eventually reflect the book value or cash flows to drive gains. Over the past 12 years, this hasn't been the case for many.

Value stocks, such as **BlackBerry** or **Fairfax Financial**, have been trading below their book value for years. Their gains over the past decade have lagged behind the **TSX index**.

Even Warren Buffett's portfolio has struggled. Since 2008, **Berkshire Hathaway's** share price and book value have both lagged gains in the **S&P 500**. Value stocks in general have underperformed the index and growth stocks over the past decade.

Reasons for this shift

I believe there are three key reasons why growth investing has performed better than value investments over the past decade. These reasons still hold true today, so I can see growth outperforming value over the next decade as well.

First, the technology sector has become a larger component of the global economy. The biggest company in Canada and the five largest companies in America are all tech stocks. The performance of these companies are not determined by their "tangible assets." Software, digital marketing and innovation are difficult to quantify on a balance sheet.

Second, Warren Buffett's success over the years has inspired so many that the strategy is now ubiquitous. As more people bet on stocks using the same valuation techniques, genuinely undervalued stocks tend to become overpriced. It's like looking for a bargain at a shop with millions of expert buyers.

Finally, the government's money printing policies have distorted the markets. With interest rates at record lows, investors have no option but to buy stocks.

Now that the government has started sending weekly cash deposits to everyone, the capital flowing into the stock market is truly unprecedented. That has pushed valuations higher and suppressed returns.

Foolish takeaway

Instead of focusing on cheap or undervalued stocks, I've turned my attention to stocks with immense growth potential that are fairly valued. In other words, I don't mind paying 60- or even 100-times annual earnings if the company is *doubling earnings every year.*

This is why my portfolio now includes growth stocks like **WELL Health Technologies**.

Of course, I could be completely wrong in my thesis. Value stocks could supersede growth stocks over the next decade. I encourage you to dig into this issue further and figure out which style suits you and your financial objectives best. Good luck!

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