3 Reasons You Can’t Invest Like Warren Buffett

Description

For many investors, Warren Buffett is a shining example to look to for inspiration. With a +40-year track record and an average return roughly doubling the S&P 500, his results speak for themselves. While Buffett’s edge seems to have faded in recent years, there’s no denying that his *long-term* track record is admirable.

For this reason, a lot of investors seek to emulate Buffett’s plays. Whether that’s by buying the stocks Buffett buys or buying stocks similar to Buffett’s corporate acquisitions, there are plenty of people out there whose investment strategy is mainly to emulate Buffett.

The only problem is that it’s not really possible to do so. A huge part of Buffett’s success over the years has been thanks to corporate acquisitions and financing for special situations. Neither of these are available to retail investors. You can get exposure to them through **Berkshire Hathaway** itself, but proportionately, it won’t be very large.

Warren Buffett himself has advice for retail investors, and it’s not to emulate him. I’ll explore that in a minute. First, though, let’s look at three reasons why you can’t invest like Warren Buffett, even if you want to.

You can’t buy whole companies

The main reason you can’t invest like Warren Buffett is because you can’t buy whole companies. Many of Buffett’s investments over the years have been either corporate buyouts or purchases of private companies. Neither of these are available to you as a retail investor. While you could try to emulate Buffett’s acquisitions with comparable public stocks, you’re not getting the exact same thing.

You can’t make deals with corporate America

One big source of revenue for Buffett over the years has been financing deals with corporate America. One such deal was with **Goldman Sachs**. In the financial crisis, he demanded a 10% yield on preferred shares to bail the company out. He got the amount he asked for plus warrants to buy common stock. That's a deal you can't get as a retail investor, nor can you emulate it with any publicly traded securities.

You won't get the same returns on U.S. stocks

By now, you're probably well aware of the reasons you can't emulate Buffett's entire portfolio. A lot of his deals are not publicly traded, so you can't get a piece of them for yourself.

Now, you might be thinking "Sure, but can't I at least copy the publicly traded part of Buffett's portfolio?"

Well, yes. But you won't get the same returns. The thing is that the U.S. government imposes a 15% withholding tax on dividends paid to foreigners. So, as a Canadian investor, you won't get the same returns on the dividend paying portion of Buffett's portfolio that he gets. Generally, the dividends will always be 15% lower.

So, as you can see, it's impossible to copy Buffett's entire portfolio, and even the publicly traded part of his portfolio won't yield as much for Canadian investors. What a downer.

Fortunately, there's a silver lining. Buffett doesn't think you should be emulating him at all. Instead, he recommends that you buy something very specific: index funds. Buffett has been touting the virtues of index ETFs for years; just recently, he put his money where his mouth was by buying SPY. That's an S&P 500 ETF based in the U.S.

As a Canadian, a similar investment you could make would be the **iShares S&P/TSX 60 Index Fund** (TSX:XIU). You could, of course, buy the S&P 500 yourself, but beware the withholding taxes.

By buying an ETF like XIU, you get a diversified slice of Canadian business that you can feel comfortable with. The fund holds 60 stocks and has fees of just .18% annually — low enough you won't even notice them. This fund won't deliver the kinds of returns Buffett got in his early days. But it should perform adequately over the long term.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/26
Date Created
2020/07/08
Author
andrewbutton