



Warren Buffett: Don't Diversify

Description

Diversification is blending different investments in a single portfolio. Don't put your eggs in one basket, so to speak, to [spread the risk](#). The central focus of this strategy is to temper potential losses. Another salient feature of a diversified portfolio is that it will yield a higher return.

The yardstick of investors with regards to successful investing is Warren Buffett. Ironically, the GOAT (greatest investor of all time) of investing hasn't been diversifying in 50 years. If you were to look at **Berkshire Hathaway's** stock holdings today, Buffett's conglomerate is not fully diversified.

Five-star general

Buffett's style is peculiar in some ways. For him, diversification is protection against ignorance. A portfolio with 50% in five stocks and 30% in about 15 stocks provides a margin of safety. By today's norm, such a portfolio is intensely concentrated, not diversified.

He calls his top stocks as the generals. At present, **Apple** is Buffett's five-star general. Recent scuttlebutt says the company's position in the American tech giant is around \$91.3 billion. It represents 43% of Berkshire's total portfolio. With a position this big, you can say the Oracle of Omaha is not big on diversification.

Buffett considers Apple Berkshire's third business alongside its wholly-owned subsidiaries. He adds that the iPhone maker is probably the best business he knows in the world. Of the 46 stocks, he has two TSX stocks, namely **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Restaurant Brands International**.

As of March 31, 2020, Berkshire owns 14,949,031 and 8,438,225 shares of the restaurant stock and energy stock, respectively. Also, it was only in July when Buffett made a [significant move](#) in the 2020 pandemic. Berkshire purchased the natural gas storage and transmission assets of **Dominion Energy** in the U.S. for \$9.7 billion.

Struggling oil sands king

Income investors are losing interest in Suncor Energy after the oil sands king slashed dividends by 55% in May 2020. Buffett's Canadian energy stock continues to underperform. Year to date, the former dividend all-star is losing by 45.16%. Had you invested \$10,000 in Suncor at the start of 2020, your money would be worth \$5,481.60 today.

Everything is not lost, as Suncor can bounce back to reclaim its lofty position in the energy sector. Management is astutely navigating the health and oil crises by reducing spending levels. The company is scaling down its capital budget in 2020 by almost 26% (\$3.9 to \$4.5 billion).

The company is reckoning with the downturn in commodity prices. Suncor expects to boost its earnings and generate higher cash flows with the strategic move. Investors are waiting to see Suncor's Q2 2020 earnings report, which is due on July 22, 2020. Analysts expect Suncor to report a year-on-year decline in earnings on lower revenues.

In Q1 2020, the net loss was \$3.52 billion compared with the \$1.47 net earnings in Q1 2019. Poor results could have a significant impact on the stock price in the near term. Suncor is currently trading at \$23.05 per share and offering a 3.65% dividend.

Sound advice

Warren Buffett is not 100% against diversification but warns about "over-diversification," because it results in mediocre returns. If you want to outperform the broad market consistently, his advice is to invest in a few outstanding companies on sale.

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2. Energy Stocks
3. Investing

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