Beginner Investors: How to Get Rich Over the Long-term by Investing Like the Legends

Description

Many beginners seek to get rich as quickly as possible with little consideration for the magnitude of downside risks they'll stand to take on. Amid quarantines, many young folks bragging about their quick gains. So, it's hard not to want to dabble around with volatile stocks and risky options, while unknowingly wandering down the path of a speculator.

You see, seeking to make substantial gains over the short-term, even with sufficient due diligence put in, is speculating, not investing. The pursuit of short-term profits is a dangerous game that's more akin to gambling than investing.

So, if you're a beginner long-term investor and not a speculator who seeks that euphoric rush that's like the feeling you get when you sit down at the Blackjack table, you should have a time horizon beyond just a few weeks or months. While quick gains are nice to come by, they're not the goal of a long-term investor.

The ultimate goal is superior returns over a prolonged periods of time, with or without those inevitable short-term bumps in the road.

Patience is only part of the game

Instead, long-term investors seek opportunities that allow for the best risk-adjusted return over the course of years. It's more about balancing risk with reward over the years, rather than trying to make a quick buck in a day or a week. Just have a look at how legendary investor Prem Watsa (known as the Warren Buffett of Canada) of **Fairfax Financial Holdings** (TSX:FFH) invests.

It seems as though he couldn't care less about seeing his holdings go up on the day to day or even the month to month. He's one of the most patient investors on the planet, and if a stock he has conviction in falls in price over, making him look wrong or foolish (lower-case "f," folks!), he'll add to his position.

Do you possess a long-term value investor's mentality?

Value-oriented long-term investors relish the opportunity to scoop up more shares at better prices. While it may seem "nuts" to hope that the stocks you own go down so you could add to your position and lower your cost basis, such a mentality may be a sign that you are, in fact, a long-term investor with the temperament to beat the markets over the long-term.

Prem Watsa is a classic deep-value investor. He has the patience and the conviction to create substantial value for his firm Fairfax over extended periods. He's got the knack for spotting macroeconomic trends and is more than willing to make use of unorthodox instruments to hedge his bets and reduce downside risk.

Options can be hazardous to your wealth

Many speculators abuse options as a way to maximize short-term gains despite having little to no knowledge about how they actually work.

Long-term investors use options to hedge their bets and further improve upon their portfolio's overall risk/reward. If you desire to be like Canada's Warren Buffett, always seek knowledge and ensure proper due diligence before hitting the "buy" button on any risky instrument, no matter how much it could stand to enrich you over the near-term.

If you're able to steer clear of what you don't understand and are willing to learn from the pros like Warren Buffett and Prem Watsa, then you may have what it takes to do profoundly well with your self-guided portfolio over the long term.

Foolish takeaway

A Buffett-like temperament can be learned with experience, but only if you're a beginner who's willing to forego the pursuit of short-term profits and focus on the long-term picture, which is all that matters for investment legends like Prem Watsa and Warren Buffett.

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Author
joefrenette