Invest Like Warren Buffett: Buy This TSX Stock

Description

Investing in **TSX** stocks can be somewhat of a complex undertaking. On the one hand, it seems like it should be easy, just follow the steps of a well-known investor like Warren Buffett and invest for the long term. In reality, though, it's much more difficult, and the average investor will consistently underperform the market.

Investing is difficult because, in theory, it makes sense, but in reality, there are so many factors that can influence the results. Investors have to worry about external factors when evaluating investments. However, internal factors such as patience and discipline are just as, if not, more important.

Why you can't just buy the same stocks as Warren Buffett

And you can't just buy the same stocks as Warren Buffett because by the time he has bought into a company, the stock will usually rally. It's rallying because investors see a name like Buffett buying the stock and want to join in. In addition, the demand for shares will likely push prices up considerably.

So by the time you go to buy, the valuation will be much different than what Buffett paid.

Conversely, if he ever sells the stock, it will likely see a hit to the share price, and by the time you go to sell, you will have missed out on some potential gains.

Furthermore, Buffett has a massive portfolio of wholly-owned companies making up his portfolio too, which investors can't get exposure to unless you buy his stock **Berkshire Hathaway Inc.** So only investing in the stocks he is buying may leave you underexposed to certain sectors or industries.

However, there is an advantage you have over Warren Buffett. Due to his company's massive size, it's not worth it for him to buy into smaller stocks sometimes. This is purely for mathematical reasons, where even if the investment can grow 100% if the absolute value is too small for his $500 billion company, it's likely not worth his time.

This means there are several small-cap TSX stocks that Buffett may approve of, but that he would never invest in. So investors who are confident in their ability to identify high-quality opportunities can focus on picking stocks.

For most investors, however, you are likely better off following one of Buffett's best pieces of advice.

Warren Buffett's advice to retail investors

Warren Buffett recommends that most investors forgo stock picking and instead stick to buying index funds. It's no secret that the average investor underperforms the market. Even many professionals struggle to consistently outperform the market.

This means that by sticking with index funds and investing for the long term, you could be an above-average investor.

One of the first index funds I would recommend for investors is the **iShares S&P/TSX 60 Index ETF**.

This ETF is especially ideal for beginner investors looking to start to build their portfolio. The ETF tracks the TSX 60 index, 60 of the biggest and best companies in Canada. Most of these stocks are ideal core holdings anyway, which is why the ETF is such a great choice for a passive investment.

And on top of the capital gains potential you get with exposure to all these high-quality TSX stocks, they also combine to pay a dividend, which currently yields roughly 3.2%.

Bottom line

The best way to go about investing is to keep things simple. The more you try to do, often will only make things complicated. And if you do decide to pick your own stocks, make sure they are not only high-quality, but you're also buying them cheap.

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