



Warren Buffett: What LeBron James Can Teach You About Investing

Description

It's not uncommon to see great people, even if their respective "greatness" comes from entirely different spheres, getting along and developing friendships. But even then, Warren Buffett's friendship with LeBron James seems a bit unusual. One is a 90-year-old business tycoon and one of the greatest investors in history, and the other is a 35-year-old athlete and one of the best basketball players who's ever lived.

Still, Buffett and LeBron have mutual respect and even friendship. Both stay in contact. And LeBron's athletic prowess isn't the only thing Buffett admires about the man. He says that LeBron is smart about business. Recently, he used LeBron's example to dispense some of his investment wisdom.

Buffett, LeBron, and diversification

[Warren Buffett](#) is no fan of diversification, and that's no secret. And he gave LeBron's example as to why diversification might not be an excellent idea. Buffett said if you had LeBron James playing in your team, you wouldn't take him out to make room for someone else. He also said that it's crazy to put money on your 20th choice instead of your first one. He also compared the player's return to his old team, Cleveland Cavaliers, to Coke reverting to its old form.

If we look beyond the "personification" of investment strategies, what Buffett is trying to convey is that when you have one good business or a few good businesses in your portfolio that you know are the best, why would you prioritize investing in something else *just* for the sake of adding something new to the portfolio?

His portfolio is a testament to that mentality since more than three-quarters of it comprises Buffett's five favourite investments. But I would revert to the latter part of his famous quote on diversification: "diversification is protection against ignorance. It makes little sense if you know what you are doing."

Since the goal of most retail investors is to grow their savings and keeping them safe, their knowledge and "eye for stocks" is drastically different (usually very limited) compared to people whose primary *job* is investing. For such investors, diversification is usually beneficial for keeping investments relatively

safe, even at the cost of limiting growth opportunities.

Invest in what you understand

Even while diversifying, investing in what you understand is always crucial. If you [understand banks](#) like Buffett does, you may want to add the **National Bank of Canada** ([TSX:NA](#)) to your investment portfolio. One of the Big Six banks in the country, National Bank outshines its peers when it comes to capital growth.

It's also offering a juicy yield of 4.17%, which seems a bit low compared to others, but it can be associated with its recovery, which is second only to the **CIBC**. National Bank has grown over 72% since its lowest point in March. It's also offering a strong five-year CAGR of 15.25%.

Considering its history and the safety of its dividends, and the fact that Canadian banks have proved their mettle in the last recession, National Bank seems like a stock you can buy again and again.

Foolish takeaway

While Buffett makes a compelling argument against diversification, you might be hard-pressed to find a stock worthy of being called the "LeBron James" of your investment portfolio. Once you do, and you are sure that it can consistently deliver, you may focus more on increasing your stake in that stock instead of diversifying. Until then, keep screening different "players."

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