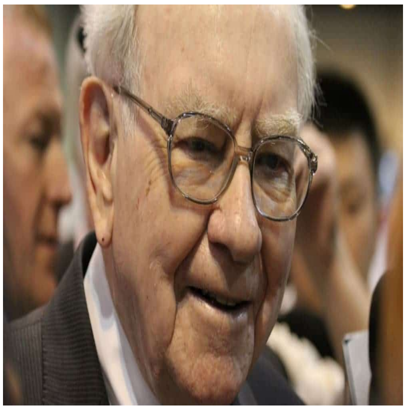

2 Ways to Invest Like Warren Buffett

Description

Warren Buffett will go down in history as one of the greatest investors ever. And it's not because he cracked some kind of cryptic investment code or he understands the market in a way no one else does, but because he is persistent. He sticks to his investing "values" as much as possible. And most important: he is always learning and evolving.

This is one of the reasons why Buffett's investment wisdom is easy to comprehend. It resonates with acceptable investment practices and the core principles of value investing. But that's something many investors do, so why don't we see several other investors that shine as bright as Buffett in the stock market?

To decipher this riddle, Buffett's former daughter-in-law and a family friend wrote a book in which they explored certain techniques that they believe made Buffett one of the most famous investors in the world. These techniques and some of the approaches that Buffett employs when screening potential businesses to buy can help investors refine their own stock evaluation criteria.

Investing in consumer monopolies

The word monopoly has a negative stigma associated with it. The lack of competition allows a business to set its own terms, which is typically bad news for investors. But that's not how Buffett sees consumer monopolies. He looks at intangibles like brand name, patents, and customer loyalty, things that separate a business from its competitors or one that has something unique to offer.

In Buffett's portfolio, **Apple** would be a fantastic example of a company that thrives on customer loyalty and brand name. He prefers such businesses over commodity-based firms, where the market sets the price, and the price of commodities dictates the company's performance.

A higher return on equity

Another way to invest like Buffett is to look for companies that offer a high return on equity. That's an oversimplification and just one of the many metrics Buffett looks for when he considers an investment, but it is an important one. The book offered a number: 12% or above for return on equity, ideally averaged out for the last seven years.

In this vein, one Canadian company that investors might want to consider is **Abitibi Royalties** (TSX:RZZ). It is currently offering a return on equity of 44%, and even though in two out of the last five years, the ROE has been negative, the average would still come out more than 12%. Another box this company ticks, based on Buffett's methodology, is the total assets to total liabilities ratio. Abitibi's total assets are more than five times its total liabilities.

The company offers robust capital growth prospects. Its five-year CAGR 56.7%, and while we can attribute a lot of it to the current surge in gold demand, it still made its investors a lot of money.

Foolish takeaway

Investing like Buffett doesn't necessarily guarantee success like Warren Buffett. He has spent a lot of time refining his investment strategy and building a secure portfolio. Like anyone else, he makes mistakes, but he also learns from these mistakes. So when you are following his investment advice, it's also a good idea to pick up some of his habits and attitude towards investing and research.

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