



Follow Warren Buffett's Advice and Invest in These 2 TSX ETFs

Description

The legendary investor Warren Buffett has been a strong admirer of long-term investing. Many investors of our generation have notably benefitted by reading and listening to his investing philosophies. He once stated in a letter to shareholders, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

That might sound intimidating to first-time investors. So, how can one follow and replicate the investing habits of the Oracle of Omaha?

It is really not that difficult.

Warren Buffett and his investing values

Buffett has always asserted that you need to invest in businesses that you understand. He spends a lot of time every day reading and analyzing financial reports of the companies. But novice investors are not required to undergo the tedious task. Also, they often do not have the expertise to understand the financials of every company.

[Warren Buffett](#) has a solution for these kinds of investors: index funds.

An index fund is a basket of stocks that gives exposure to the broader market. Instead of picking individual top-performing stocks, index funds give a combined, diversified representation. They provide safety and generate enormous wealth over time.

Canadian investors: Top TSX ETFs to buy

Warren Buffett's **Berkshire Hathaway** has also invested in the **S&P 500** index funds for a long. If Canadian investors want to replicate the S&P 500 returns, they can consider **iShares Core S&P 500 Index ETF (TSX:XSP)** (CAD hedged). One can get exposure to top companies like **Apple, Facebook, Amazon**, and many others with this index fund.

Many investors shun index funds because they are slow-moving and have perceived subdued growth. However, XSP has returned more than 250% in the last decade, including dividends. That's a decent return compared to many dividend aristocrats.

The thesis behind betting on index funds is to have an exposure to growing economies that offer handsome gains along with safety. That's why Warren Buffett recommends them to everyday investors.

If you want to bet on the [Canadian economy](#) at large, consider **iShares S&P/TSX 60 Index ETF (TSX:XIU)**. It offers long-term capital gain with exposure to the country's top 60 stocks.

The fund's top three holdings include **Royal Bank of Canada, Shopify**, and **Toronto-Dominion Bank**, which account for 7.8%, 6.8%, and 6.4% weight in the fund, respectively. It has returned almost 100% in the last 10 years, including dividends.

The Foolish takeaway

As investors bet on several stocks at once with index funds, the stock-specific risk gets diversified. So, even if one sector or stock faces near-term headwinds, other stocks in the fund compensate and cover up for the losses.

Certainly, index funds are advantageous in many aspects. However, don't just go all in. Warren Buffett recommends investing a small amount at regular intervals in these index funds. Unarguably, it will eliminate the timing risk and outperform most of the investment professionals in the long term.

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1. Editor's Choice

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1. TSX:XIU (iShares S&P/TSX 60 Index ETF)
2. TSX:XSP (iShares Core S&P 500 Index ETF (CAD-Hedged))

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