



Warren Buffett: 5 Qualities to Look for in Potential Investments

Description

Warren Buffett is one of the greatest investors of all time. His track record of performance is not only impressive, but also remarkably consistent. Plus, Buffett has a relatively easy to understand strategy — long-term investing — has helped build up a huge following of retail investors.

We all want to emulate Buffett's strategy. This means finding high-quality businesses and buying them for the long-term. But how can we find these investments? What should we look for in companies?

Investors almost always start by looking at the price, but before we even look at how much a company is trading for, we should see if it's worth an investment.

Taking this approach and researching a company first will also give you a good view of its potential and its value before you look at the price for comparison.

Here are the five major things that Warren Buffett looks for to help identify a [high-quality investment](#).

The first Warren Buffett requirement: an easy to understand business

Warren Buffett has repeatedly said that for him to make an investment in a company, he needs to fully understand how that business makes money. After all, if you don't even fully understand how a certain business makes money, how can you adequately tell if it's a good investment or what risks to consider.

Having an easy to understand business is so crucial for Buffett that he will walk away from even the best stocks on the market if he can't get a good enough grasp of the operations.

Warren Buffett looks for a company with a long track record

Once Warren Buffett confirms he understands a business, the next thing he will want to look for is the company's track record.

Having a long history is important. It shows that there is a long-lasting demand for the company's product or service.

It's also important for predicting how a company will continue to grow into the future. And the more past data you have about a company's growth, the better idea you can have about its future potential.

A business with a solid competitive advantage

The next super important quality all top businesses have is a competitive advantage. Warren Buffett likes to refer to it as a moat for the business. What about the company separates it from all its competitors and protects it from losing market share?

Almost all dominant businesses have a significant moat, so it's crucial you identify which factors set your potential investment apart from its peers and whether that makes the stock worth an investment.

A competent management team

Management is one of the most underrated aspects that investors research. But management can make a big difference in how a company performs.

Despite all the success Warren Buffett has enjoyed — and the numbers to back it up, to him, the people behind the business are always some of the most important factors in making an investment.

That's why it's crucial you research management or listen to conference calls to better understand how competent the management team is. After all, if you buy shares and own the business, you are employing these managers to grow the value of your investment.

Price and value

Only when you have confirmed that a stock has the above qualities should you move onto the last important factor: price and value. It's crucial we do that other research first to eliminate poor performers before looking at price. This will help investors avoid [value traps](#) like **Air Canada**.

By researching its potential and current situation and looking for all the above qualities first, it will allow us to filter out the poor investments before we even get to the valuation stage. Thus, eliminating the potential of buying value traps.

Foolish takeaway

It's worth noting that many stocks with all the above qualities won't trade that cheap, which is why more recently, Warren Buffett has employed more of a growth at a reasonable price approach.

This still looks for high-quality businesses, but rather than focusing on fair companies with a wonderful

price, Buffett is now buying wonderful companies as long as he can buy them for a fair price.

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