No Savings at 40? Follow Warren Buffett’s Advice and Retire Early

Description

Warren Buffett’s long-term approach to investing money in shares has allowed him to benefit from the stock market’s growth over many decades.

Furthermore, his focus on buying high-quality shares at low prices has allowed him to unearth some of the best opportunities in the stock market.

As such, following his methods may lead to relatively high long-term returns that allow an investor to retire earlier than they had planned.

Warren Buffett’s long-term approach

Warren Buffett has always taken a long-term approach to investing money in the stock market. He is relatively unconcerned with the potential for a market crash, other than to use it to buy stocks for lower prices.

A long-term investment approach can be beneficial because it allows an investor to take advantage of compounding. For example, the stock market has historically offered an 8% annual total return. Over a short time period, such a return is unlikely to make a significant impact on a portfolio’s value. However, repeated over a period of 25 years, for example, it can turn modest amounts of capital into a surprisingly large portfolio.

For example, using Warren Buffett’s long-term approach could mean a $10,000 investment today is worth $68,000 in 25 years’ time. This assumes an 8% annual return, which is in line with the return previously delivered by indices such as the FTSE 100.

A focus on high-quality companies at low prices

Of course, Warren Buffett has generated an annual return that is significantly higher than 8% per annum over the long run. A key reason for this is his focus on buying high-quality companies when they trade at low prices. High-quality companies are generally those businesses with competitive advantages over their peers. This can allow them to generate higher profits in a range of market conditions.

Buying such companies at low prices provides greater scope for capital appreciation over the long run. Certainly, the best buying opportunities often coincide with the periods of greatest economic weakness. However, by focusing on long-term recovery prospects for high-quality businesses, it may be possible to purchase them at attractive prices.

Retiring early with a portfolio of stocks

Clearly, it has taken Warren Buffett many years to build his wealth to its current level. However, an investor aged 40 is likely to have a long time horizon until they plan to retire.

Furthermore, Buffett has stuck with his holdings for the long run. Many of his holdings have been part of his portfolio for many years. By holding companies over an extended time frame, they are provided with the opportunity to deliver on their growth potential.

It also means they have time to implement new strategies and to see the results of their own investments. Over time, this can catalyze a portfolio's performance and lead to an early retirement.

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