



Warren Buffett: Tech Stocks Are Unavoidable

Description

Investment legend Warren Buffett has been notorious for avoiding the technology sector for much of his career. In fact, the Oracle of Omaha is a close friend of one of the most successful tech entrepreneurs of our generation, Bill Gates, yet has never invested in Gates's trillion-dollar tech company.

Over the past few years, however, Warren Buffett's company has been adding tremendous exposure to technology companies. Buffett's pivot could indicate that the tech sector is unavoidable for investors now, regardless of your investment strategy.

Here's a closer look.

Warren Buffett changed his mind

Over 60 years and hundreds of investments across several industries, Warren Buffett has mostly avoided tech stocks. Even during the dot-com boom of the late 90s, Buffett stuck to his traditional game plan, missing out on some incredible returns over that period.

However, in 2016, Buffett's team made a big change. They invested in **Apple**. Apple is now *the largest position* in his portfolio, accounting for 46% of the US\$255 billion total. Besides this, he also owns a stake in **Amazon**, a payment processor based in Brazil, and an enterprise software provider based in Silicon Valley.

It may be fair to say that Warren Buffett (or at least his team of investors) has changed their mind about the tech industry in recent years. Which should serve as a signal for ordinary (non-billionaire) investors like us.

Tech investing like Buffett

Although Buffett has changed his investment style in recent years, he hasn't changed his focus on fundamentals. Many of his top tech holdings are mature, profitable companies with durable competitive advantages. Warren Buffett clearly isn't taking moonshots here, and we probably shouldn't either.

Perhaps the ideal example of a mature tech stock that would fit his portfolio is **Constellation Software** ([TSX:CSU](#)). Much like his top holdings, [Constellation is well diversified](#) and well established. The company is an enterprise software provider that's been around since the 90s.

It's also extraordinarily profitable, which is rare in the tech sector. Constellation generated \$158 million in net income in its most recent quarter. The company also generated \$234 million in free cash flow in the same period. Part of this cash flow is paid out in dividends — another factor that sets it apart from other tech stocks.

A large, well-established tech company with expanding cash flows and regular dividends is precisely the kind of stock Buffett would buy. Although Constellation Software isn't in his portfolio, you should certainly consider adding it to yours.

Bottom line

The most successful investors aren't afraid to change their minds. When the economy shifts and the world changes, savvy investors reassess their strategies. That's what the legend himself, Warren Buffett, seems to have done in recent years. Now, his biggest and most profitable holdings are tech stocks.

Perhaps it's time for regular investors like us to add more exposure to the tech sector too. My favourite "potential Buffett tech stock" is Constellation Software. It's got the right mix of resilience and profitability to deliver substantial returns over the next decade. It's certainly worth a closer look.

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