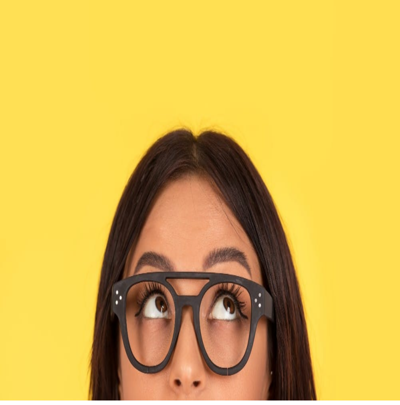

Warren Buffett: Do This to Get Rich in the Stock Market

Description

Warren Buffett, otherwise known as the Oracle of Omaha, is one of the most recognized fund managers of all time. Retail investors around the world have been known to watch his decisions and apply them to their own portfolios. This article caters to investors that may be interested in thinking outside the box. Have you ever really looked at the principles Warren Buffett applies to his investments? What techniques have allowed him to get rich?

In this article, I will describe some of the principles that Warren Buffett has followed throughout his career. In addition, I will be giving examples of companies that satisfy these principles, so you can start building that wealth-producing portfolio for yourself.

Does the company have high profit margins?

One of the first requirements that Warren Buffett places on a company is that its profit margins be sufficiently high. A company's profit margin is simply the ratio calculated by dividing net profits by total revenue. The higher this ratio is, the more attractive a company becomes. By maintaining a high profit margin, companies have a greater chance of survival if revenues decline.

Generally, software companies will have much greater profit margins, since they do not need to hold many depreciating assets and run otherwise capital-light operations. With this in mind, it should not be a surprise that **Berkshire Hathaway's** largest position is **Apple**. The company currently accounts for 47.8% of Buffett's portfolio.

In Canada, this same logic can be applied to **Shopify**. Although the company is not yet held by Buffett, it does satisfy this requirement. Since 2016, Shopify has managed to maintain a profit margin of at least 52%.

On the contrary, airline companies are known to have very low profit margins. During good times, **Air Canada's** profit margin rests around 10%. However, this year, the company has reported major losses resulting in a profit margin as low as -332% in Q2. This desire to only hold companies with a healthy profit margin can be observed in Buffett's decision to exit his airline holdings.

Buffett looks for bargains

As the most well-known student of Benjamin Graham, Warren Buffett's value style of investing has been mentioned in virtually all financial websites. This implies that Buffett is always on the hunt for companies that are trading for a bargain. There are many metrics that can be used to determine whether a stock is over- or undervalued at any given time. An example would be by looking at a company's price-to-book (P/B) or price-to-sales (P/S) ratios.

The P/B ratio of a company is its market cap divided by its book value (net assets). Generally, value investors will be looking for a P/B ratio of three or less. Likewise, the P/S ratio of a company is calculated by dividing its market cap by its revenue in the most recent year. In this case, value investors will be looking for a P/S of one to two.

Banks and other financial companies generally satisfy these conditions very well. For that reason, a large portion of Berkshire Hathaway's portfolio is composed of companies such as **JP Morgan**, **Bank of America**, and **Wells Fargo**. In Canada, my top choice would be **Bank of Nova Scotia**. It currently has a P/B of 1.25 and a P/S of 3.27.

Foolish takeaway

Following Warren Buffett's trading activity can be very beneficial to retail investors. He is one of the most successful fund managers of his generation and one of the most recognized investors of all-time. Warren Buffett has found success by investing in companies that have high profit margins and trade at a bargain. With that said, investors should consider companies such as Shopify and the Bank of Nova Scotia for their portfolios.

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