



Warren Buffett: A 4-Step Guide to Building a Million-Dollar Portfolio

Description

The 90-year-old billionaire Warren Buffett is regarded as the Oracle of Omaha of the investing world, as he made his wealth through investing. In his +70 years of investing experience, he has seen many stock market crashes, technology revolutions, and business and economic trends. It's not like he didn't lose money, but he came out of his mistakes profitably with the help of a well-balanced diversified portfolio.

Buffett's billion-dollar portfolio

He knows that not every investment he makes will give him profits. He learns from his mistakes and takes calculated risks. Before you invest your hard-earned money in a stock, read and study about it, its business, its management, and its market. And only invest in those businesses that you understand and trust.

Firstly, set aside some money for investment and how much you can allocate to risky investments. Once you determine your risk appetite, it is time to build a portfolio. You can adopt a four-step top-down approach to portfolio building.

Sectors

The first thing you look at is which sector you are comfortable investing in. Buffett understands the money supply chain and consumer goods but doesn't feel comfortable with technology and commodities. Hence, most of **Berkshire Hathaway's** investments are in consumer goods, banks, financial institutions, and fintech companies. Another billionaire investor, Prem Watsa, is heavily invested in tech and energy.

The 2030 decade will see the rise of 5G, clean energy, digitization, and electric vehicles. These are some sectors you might want to consider when building your portfolio. But don't overdiversify. Even billionaire investors don't overdiversify, as it can dilute your gains.

Size and value

Once you settle on a sector, consider the type of companies you want to invest in. Do you want to invest in market leaders, fast-growing companies, or value stocks trading at a discount? Warren Buffett has a mix of all.

- His largest holdings are in market leaders of their respective sectors like **Apple** and **Coca-Cola** in consumer goods.
- He has also made small investments in initial public offerings like that of **Snowflake**.
- He seeks value stocks and therefore made a big acquisition of **Dominion Energy's** natural gas pipeline business when the stock was down because of the pandemic.

Domestic/foreign investments

While Buffett loves America, he has investments in foreign markets. As the world comes closer, companies are growing globally and looking to become a global brand. Every country has a unique market trend. Investing in domestic and foreign companies or global companies can reduce your country-specific risk. Berkshire Hathaway has made [investments](#) in many Canadian companies like **Suncor Energy** and **Barrick Gold** and Brazil-based fintech company **StoneCo**.

The Canada Revenue Agency allows you to buy U.S. stocks trading on the NYSE and the NASDAQ through your Tax-Free Savings Account (TFSA).

Stocks/debentures/ETFs

Once you know the sector, the company size, and the stock exchange, you can decide on how to get exposure to their growth. Buffett prefers buying equity and preferred shares of a company. You can buy a stock of the company you are bullish on and the ETF of a sector you are bullish on.

Managing a million-dollar portfolio

Creating a portfolio is just one part of it. Managing it is a different ball game. Not all your stocks may perform the way you thought. When you make a mistake, admit it and exit the stock to contain losses. Buffett did not hesitate to exit the entire airline sector by selling US\$6 billion worth of [stake in the top four U.S. airlines](#) in April 2020.

If you are bullish on the entire tech sector, you can buy **iShares S&P/TSX Capped Information Technology Index ETF (TSX:XIT)**. The XIT ETF buys the top 19 Canadian tech stocks and holds them. You buy the ETF for less than \$50/unit and get indirect exposure to the price fluctuation of these tech stocks. The ETF derives more than 50% of its value from **Shopify** and **Constellation Software**, as they have the highest market capitalization. It can give you high exposure to large-cap tech stocks and medium exposure to value and mid-cap tech stocks.

Build and manage your portfolio wisely.

CATEGORY

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