Buffett Thinks This Investment Could Face a Bleak Future: Here's What You Should Do

Description

When Warren Buffett speaks, investors ought to listen. Last weekend, **Berkshire Hathaway** released its 2020 annual shareholder letter, and I am still enjoying the many gems in that letter. For being 90 years old, he is still just as sharp and insightful as he was when he first started writing to shareholders. In a world obsessed with quick profits and day trades, I love Warren Buffett's old-world wit, thoughtfulness, and, most importantly, experience.

Learning from Warren Buffett's experience

Warren Buffett has over six decades of investing experience. Not many other investment gurus have that. Consequently, when he speaks, his words have years of failures and successes behind them. Fortunately, the latter has far outweighed the former.

Recently, there has been a lot of concern about inflation and subsequent rising interest rates. The U.S. 10-year bond yield peaked over 1.50%, leading to a decent sell off in everything from technology stocks to income-producing utilities. It has many commentators worrying about the future of stocks.

Yet, Warren Buffett warned investors very clearly that "bonds are *not* the place to be these days." In fact, he went so far as to say, "Fixed-income investors worldwide — whether pension funds, insurance companies or retirees — face a bleak future."

Warren Buffett isn't worried about interest rates, so why should you be?

The point he is trying to make is that we can't control politics, economics, interest rates, or inflation. Consequently, in this environment, bonds are just not the ideal "safety" investment. Likewise, the new hedges against inflation like Bitcoin or cryptocurrency are just as much or more volatile than traditional the "stores of value." Rather, what investors can control is what real *businesses* they choose to own as stocks.

If you want to follow after Warren Buffett, none of the day-to-day market noise matters much anyways. Your best bet is to find *stocks* with great businesses, excellent managers, competitive moats, and the capacity to compound earnings and cash flows over a long, long period of time. This formula has made him a billionaire, and it can certainly build you wealth today.

Don't go and sell all your best long-term stock holdings just because interest rates and inflation might be rising slightly. Now is a great time to think like Warren Buffett. Think like a business owner and think long term. Of course, stock markets and economies change. Nothing ever stays constant. Yet, by owning great quality businesses, you can still create very favourable returns over long periods of time.

This is one TSX stock to own

One Canadian stock that encapsulates a Warren Buffett-like love for compounding earnings is **Constellation Software** (TSX:CSU). Many investors love this stock, yet most Canadians would hardly recognize the name. Regardless, it has been one of the most consistent and successful Canadian stocks on the **TSX**. Had you bought this stock 10 years ago and held it to today, you would be sitting on a whopping 3,142% gain!

Constellation has grown much of its business by consolidating small, high-quality vertical market software (VMS) businesses. It takes these businesses, provides capital, best-practices, coaching, and productivity targets and turns them into cash cows. Often these businesses have minimal fixed assets, very high operating margins, and stable recurring revenues. More often than not, they dominate a niche segment. It then collects the cash flows and repeats the cycle by reinvesting into new businesses. It is a compounding cycle even Warren Buffett would admire.

Constellation: Forget dividends. It's time to re-invest *all* the capital

Now, Constellation is contemplating halting its dividend, so it can more aggressively pursue larger business deals and penetrate new verticals. It believes re-investing all earnings back into the business is actually the "responsible" thing to do. Given Constellation's history, I do, too!

For a stock and business like this, I would forget interest and forget the market. Rather, do what Warren Buffett suggests, "Buy a stock the way you would buy a house. Understand and like it such that you'd be content to own it in the absence of any market."

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Date
2025/07/25
Date Created
2021/03/04
Author
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