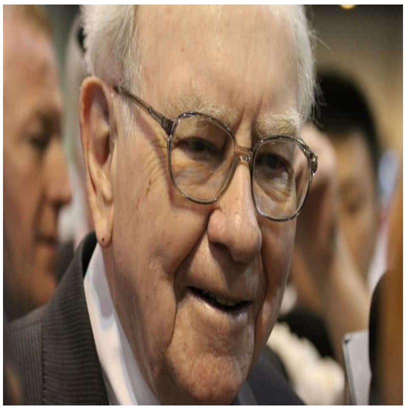

Warren Buffett: The Best Advice From His Letters to Shareholders

Description

Last weekend, Warren Buffett's company **Berkshire Hathaway** released its 2020 earnings report as well as his famous letter to shareholders. Warren Buffett's annual letter to shareholders is arguably what investors care about the most this time of the year.

As Buffett answers questions at the annual shareholder meeting and writes his letter to shareholders, there is no better place to gain investing advice and insight into how Warren Buffett sees the current investing landscape.

The amount of quality advice that's accumulated in his letters over the years could easily make up a full book on investing. Buffett has touched on every important topic from advice on economics to company culture, debt, and even market volatility.

So, with that in mind, here are some of the top pieces of advice we've learned from Warren Buffett's letters over the years and how they apply to today's investing environment.

Warren Buffett's top advice: Buy stock as an owner of the company

The most important thing to remember as an investor is that stocks represent ownership of a company. So, any time you are buying a stock, you should do so with the understanding that you're buying ownership in a company. This is important, and it will help investors to invest with the right principles rather than solely speculating on stock prices.

Furthermore, Buffett looks for companies that are already successful or showing strong promise — not stocks that could be successful that are purely speculative.

When Warren Buffett started buying shares of GEICO in the 1950s, he wasn't hoping for the stockprice to increase. Buffett saw an incredible business with amazing economics. He continued to buyshares year after year until finally owning the company outright, which he does today.

This is how investors should look at stocks. The best companies are ones that will continue to grow rapidly and earn a superior return on capital. These are businesses you should never want to sell.

So, rather than buying stocks you think will be worth more in a few months or a few years, look for businesses that will consistently earn you more money for decades to come.

"Be fearful when others are greedy and greedy when others are fearful"

Perhaps one of his most famous quotes of all time, this quote is the essence of investing like Warren Buffett. This is an important quote, because it goes against your natural emotions and impulses when the market is rallying or crashing.

Often, when stocks are rapidly growing, such as in a bubble, investors experience the fear of missing out on the incredible rally. This may cause investors to buy stocks at inflated levels.

In reality, though, as the market is getting greedy, investors should be fearful. That doesn't mean you should sell all your stocks. It just means to be extra skeptical of any investments, especially at heightened valuations.

On the flip side, when the market is fearful and correcting, investors will often want to sell their stocks to avoid further loss. However, Warren Buffett recommends that this is when investors should get greedy and start buying up the high-quality companies at major bargains.

Look for companies reinvesting their earnings in growth

Lastly, is some great advice on finding the best growth stocks. These are businesses that are continually investing their earnings in growth rather than paying dividends.

Of course, Warren Buffett owns stocks that pay dividends too, and everyone should. But the best long-term growth stocks are those that are growing fast enough that it makes more sense to continue investing in the business than returning cash to shareholders.

When companies run well and return capital well, they should be reinvesting their profits, not returning cash to shareholders in the form of dividends. That's why you never see high-growth stocks like **Shopify** paying dividends.

However, businesses in mature industries don't have to spend as much on growth.

Both companies will have a role to play in your portfolio. The stability comes from those mature companies with robust earnings. However, the best growth will come from those businesses that aren't paying a dividend.

So, if you're looking for a high-growth company to buy just like Warren Buffett does, look for ones that are rapidly reinvesting their earnings in future growth.

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