Warren Buffett’s Huge Investing Mistake You Must Avoid

Description

Warren Buffett’s investment success is shining but not entirely immaculate or spotless. His extensive experience in the investment world consists of achievements, struggles, and missed opportunities. However, the long-time chairman of **Berkshire Hathaway** had his share of miscues and miscalculations. He is also humble to admit them and take responsibility.

In his most recent annual letter to Berkshire shareholders, the GOAT of investing said that you could bet he will commit mistakes in the future. Likewise, he revealed one giant mistake. He warns followers, “Don’t buy at the wrong price.”

Biggest financial disaster

The famed American billionaire didn’t mince words when he said Dexter Shoe is his biggest mistake to-date. He acquired the Maine shoemaker for US$420 million in 1993 using 25,203 Berkshire Class A shares. Buffett said after the purchase, “There’s no business like shoe business.”

Unfortunately, the business jewel Buffett thought turned out to be worthless. Instead of $85 million in pre-tax earnings, Dexter Shoe accumulated losses within a few years. The shoe business eventually collapsed, leaving 1,600 employees jobless. Berkshire lost an entire investment, but the people lost irreplaceable livelihoods.

The lesson he wants to impart is that you mustn’t invest in a company without a sustainable competitive advantage. He assumed then Dexter Shoe has a durable competitive advantage.

Look for an enduring “moat”

Buffett's slip-up in Dexter Shoe indicates that even the savviest investor makes mistakes. He said he bought at the wrong price and confused revenue growth with a successful business. Some businesses look good in terms of revenue growth, but they require massive capital investments to grow further. After achieving a large earnings base, the debt level is usually astronomical.

The best strategy is to pick companies that can deliver products or services better than anyone to maintain high-profit margins. Otherwise, high profits would attract many competitors. They will eat away at the business and steal the profits.

Dexter Shoe started bleeding when it can't compete with international producers with low-cost labor. According to Buffett, a truly great business must have an enduring "moat" that protects excellent returns on invested capital.

Missed golden opportunity?

Buffett made unusual moves in the 2020 health crisis. He could be mistaken again by ditching his entire holdings in **Barrick Gold** (TSX:ABX)(NYSE:GOLD) in Q4 2020. Berkshire Hathaway held the gold stock for only three quarters. Frightened investors drove gold stocks higher last year when coronavirus was raging.

Many thought Buffett found a new safety net despite his criticisms against the world's most precious metal. Barrick Gold rewarded investors with a 24% total return in 2020, although the stock is on a downward trend in 2021. The $35.98 billion gold producer reported $2.3 billion in net income and posted $3.4 billion in record free cash flow.

After reducing debt levels by $5 billion, Barrick Gold is nearly a zero-net-debt company. Significant maturing debts won't come until 2033. The current share price of $20.32 is a good entry point. Analysts forecast to stock to soar 97% to $40 in the next 12 months. Barrick also pays a modest 1.77% dividend.

Take the long view

Warren Buffett made a couple more costly mistakes because of miscalculations in future earnings and high costs. Notably, he advised investors to stay clear of bonds. Stocks are better alternatives if you have long-term financial goals.

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