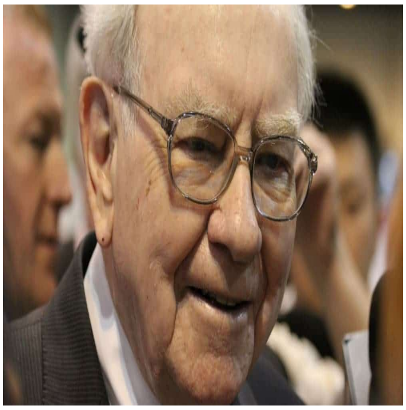

Warren Buffett to New Investors: Don’t Invest Like Warren Buffett

Description

Warren Buffett is, hands-down, one of the most successful investors of our time, if not *the* most successful. The 91-year-old from Omaha, Nebraska, is worth over US$100 billion, and his company **Berkshire Hathaway**, which literally does nothing but trade stocks, has the ninth-largest market cap in the world.

With that track record, Buffett is the kind of investor you want to emulate, right? Well, kind of. Although he does give insightful investing advice, his investing style might not be right for everyone, especially beginners.

Warren Buffett’s advice to new investors

So, what does Warren Buffett himself say to new investors? Well, a la Buffett, it’s not very complicated. Here’s his advice:

> “A low-cost index fund is the most sensible equity investment for the great majority of investors … By periodically investing in an index fund, the know-nothing investor can actually outperform most investment professionals.”
> —*Warren Buffett*

Recall that an index fund is basically a basket of stocks that tracks the performance of a market index, like the TSX. An index fund is managed passively, meaning the fund manager wants to match the market rather than beat it. That passive management makes index funds relatively cheap, which does, indeed, make them good for beginners.

So, how is this different from Buffett’s *own* investing style? Buffett is widely recognized as one of the best value investors in the world, meaning he looks for stocks whose companies are more valuable than their stock prices lead us to believe. He buys shares in these stocks under the assumption that their prices will match the value of the company, giving him significant gains in return.

In short, Buffett buys stocks on discount and then trades them when the prices rise. It might sound intuitive, but in practice, it takes great skill to find stocks that are on sale. Unless you're familiar with evaluation metrics, you might not have the acumen to find undervalued stocks.

Should you take Buffett's advice?

I agree with Buffett here: an index fund is a great place to start investing. If you're unfamiliar with evaluation metrics, such as P/E ratios, an index fund allows you to dip your feet in the stock market without the fear that you're going to pick bad stocks.

Besides, from 1960 to 2020, the S&P/TSX Composite Index had an average annual rate of return of 9.3%. Even experts will struggle to emulate a return that good.

Of course, you should know the risks involved. As with any investment, you can lose money in an index fund. While the built-in diversification of most index funds might dampen your losses, you could still see red.

Likewise, because index funds track a market, you won't see extraordinary gains. If you're okay with average returns, that might not matter to you. But if you want bigger gains — if you want the returns from, say, the next **Shopify** — you'll want to invest in individual stocks, too.

But wait — how do you find a *low-cost* index fund?

In his quote, Buffett doesn't just say invest in index funds. He says invest in *low-cost* index funds. In essence, he's recommending that you find an index fund with low fees — ones that won't drag your gains in extra costs.

The good thing about index funds — they're already less expensive than their cousins, mutual funds. My advice is to look at the fees on different index funds in your brokerage account before buying shares. While you don't want fees alone to dictate your decision, you also don't want to buy an index fund that's ridiculously expensive.

On top of that, be sure your brokerage doesn't charge outrageous fees. Most of Canada's best brokerage accounts charge next to nothing to trade shares of index funds. If you're paying high fees to make trades, now might be the time to break up with your broker and find one that can save you money.

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