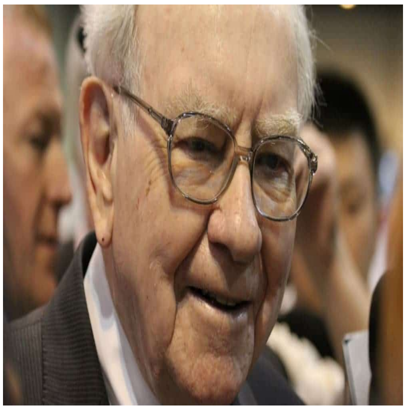

Warren Buffett Doesn’t Diversify His Stocks: Should You?

Description

Warren Buffett is, hands down, the most successful stock investor of his generation — and possibly ours. His investment portfolio speaks for itself, as does his company, **Berkshire Hathaway**, which has the most expensive share price in the history of the stock market.

So, Buffett is the best. But here’s an odd fact: he’s not a fan of diversifying his investments.

That might come as a shock. After all, diversification has long been a pillar of success for investors. What does Buffett say about diversification? And should *you* diversify your investments? Let’s take a look.

What does Buffett say about diversification?

The most widely discussed and controversial quote by Warren Buffett is possibly this one:

> “Diversification is a protection against ignorance. It makes very little sense for those who know what they’re doing.”
> *Warren Buffett*

Though it sounds like a cranky dad comment (much like his view on crypto: “It’s rat poison!”), Buffett’s entire investing philosophy can be seen in this one quote.

Buffett is a value investor. As such, he’s on the search for great stocks trading far below what they *should* be worth. He scans the market for undervalued companies he believes will perform exceptionally well over the long term. In this way, it doesn’t really matter what industry the company falls under: as long as Buffett understands what the undervalued company is about, he’ll invest in it.

In fact, Buffett prefers to invest in only a handful of industries. Right now, around 85% of his holdings are in three: information technology (43.31%), financials (29.97%), and consumer staples (11.58%). He would rather know one industry deeply than every industry superficially.

And that's exactly how he's become the GOAT of stock investing. He aspired to understand everything — *everything* — about specific companies. This has helped him hand-pick some of the best-performing stocks in history as well as exit investments at just the right time.

Why you should diversity

The short answer: unless you're Warren Buffett, diversify.

Again, Buffett amassed his wealth by gaining immeasurable amounts of knowledge about certain companies and industries. That's why he can say "diversification is a protection against ignorance." He's not ignorant about his investments: even if most are in the same industries, he's confident they will be successful.

You, too, shouldn't be ignorant about your investments. But you can hardly say you have the same knowledge as Buffett (nor the same amount of capital to invest). You most likely haven't made stock investing your career, and you probably don't spend incalculable amounts of time researching different stocks and companies.

This is where diversification comes into play. It *is* protection against ignorance, and that's not necessarily a bad thing. No matter how informed you are about companies — and you *should* know companies before you invest in them — average stock investors simply don't know what the future will hold. A market downturn will affect different market sectors in different ways: if you had everything invested in consumer staples before the pandemic, you were probably hit hard in 2020. Then again, if you had money invested in technology, your losses in consumer staples would have been balanced by your gains.

Buffett does make a crucial point, however. You don't want to be *too* diversified. The more you spread out your money, the more companies you buy, the more industries you invest in, the more knowledge you must have.

But proper diversification — buying numerous stocks in different industries — can help average investors weather a market downturn. Its insurance against ignorance, *your* ignorance, and it reduces your exposure to a single industry.

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