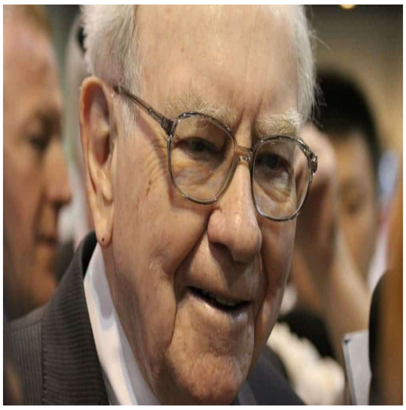

How to Become a Mini-Warren Buffett With Value Stocks

Description

Do you want to become a "mini-Warren Buffett," owning a portfolio of stocks that rewards you consistently over time?

If so, it pays to look into value stocks. Value stocks are those that are cheap compared to the profit, net assets, and cash flows of the underlying company. Studies have shown that value stocks tend to perform better than growth stocks over the long term.

Warren Buffett made his own money in the early years by buying the "cheapest of the cheap" value stocks. Today, he's more willing to pay a premium price for outstanding companies, but the core principle of his philosophy remains: pay less than what you're getting.

In this article I will explore how to find stocks that cost less than they're worth, giving you a chance at Warren Buffett-like investment results.

Research extensively

The first step to finding true value stocks is to research extensively. In the introduction to this article, I said that value stocks are cheap compared to their assets, earnings, and cash flows. That's true, but what if the company's earnings are trending downward? If that's the case, then the apparent "cheapness" may be a mirage. Finding stocks that are both cheap and growing is pretty difficult. You can start by looking for inspiration in Warren Buffett's own portfolio, which was built with cheapness in mind.

For example, one stock that Buffett has owned in the past is **Suncor Energy** (TSX:SU)(NYSE:SU). This stock is pretty cheap today, trading at just 6.4 times earnings. Buffett probably thought that this apparent cheapness was a virtue when he started buying SU back in 2018, when it traded for over US$40 (over CA$50). However, Buffett later ended up dumping all of his Suncor Energy stock in 2021 when it was around US$25.

Buffett's overall track record is good, but there's never any guarantee that one stock he owns will be a winner. If you go all-in on one Buffett stock, you can easily lose money. That might sound like a grim prospect, but fortunately, Buffett has a recommendation to help you.

Consider index funds

Investing like Warren Buffett isn't easy, but Buffett himself has a recommendation that actually is pretty easy to implement: hold index funds.

Index funds are passive funds with low management fees that hold huge portfolios of stocks. They are built on stock indexes, such as the TSX 60 index, which tracks the 60 biggest companies in Canada. You can invest in the entire TSX 60 by holding **iShares S&P/TSX 60 Index Fund** (TSX:XIU).

XIU is a fund that holds the TSX 60, giving you an ultra-diversified portfolio right out of the gate (diversification means managing risk by holding many stocks instead of one). The management fee is just 0.16% per year, which is fairly low. Finally, the fund pays a 2.5% dividend yield, so you can get a bit of cash flow coming in, even in bear markets. It's a pretty sensible investment for many people, and Warren Buffett thinks that most people should invest in such funds.

Aim for the long term

A final step on your journey to becoming a mini-Warren Buffett is to hold your investments long term. Once you've got a diversified index fund portfolio, there is little need to actively trade. Instead, you can just do it like Buffett does and hold the asset for decades. With an individual stock, that strategy can sometimes result in severe losses, but with diversified index funds, it often works.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)
3. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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