Why I'd Follow This Piece of Warren Buffett Advice Today

Description

Warren Buffett has a long track record of generating high returns. One of the key tenets of his investment strategy is having a long-term focus when holding stocks in his portfolio.

This allows his holdings to deliver on their growth potential. It also means that he does not become overly excited following periods of impressive capital returns.

This approach may be especially useful in today's stock market environment. The recent rally makes it easier to become overly confident in the prospects for equity markets, which may lead to poor decision-making.

Warren Buffett's long-term focus

Many of Warren Buffett's major portfolio holdings have been present for decades, rather than years. In that time, they have often delivered strategy changes and capitalised on growth opportunities that are simply not possible to achieve in a matter of months. Through allowing them the time they need to produce improving returns and higher profitability, Buffett has been able to enjoy higher returns than may have been possible if he had adopted a short time horizon.

This point is especially relevant right now. Many investors may have enjoyed strong returns from their portfolio holdings in recent months. The stock market has experienced a rally that has pushed it to a new record high on a global basis. While it may now be tempting to sell stocks that have produced strong returns, and to buy others in their place, providing them with the time they need to deliver on their strategies could be a more logical approach.

Buffett's investment fundamentals

Of course, Warren Buffett's value investing approach means that he is likely to sell a stock if it becomes overpriced. Similarly, if there are other more attractive opportunities available then it can be worth offloading a stock to generate sufficient capital to take advantage of it. Therefore, a long-term approach may not always be the right move.

However, selling stocks because they have risen quickly in price over a short time period may not be a prudent move. It can lead to an investor missing out on future gains – especially since global economic forecasts are generally positive at the present time. And, since the world economy has always recovered from its declines to post impressive turnarounds, there may be further opportunities for capital gains in the coming years.

A simple strategy

Clearly, Warren Buffett's long-term approach may not prove to be the right one for every investor. As 2020 showed, a stock market crash can take place at any time and can wipe large profits from existing holdings.

However, through having a long-term viewpoint, it may be easier to spot potential mispricings among high-quality stocks. It may also provide greater scope to benefit from the impact of compounding in a likely period of long-term economic growth over the coming years. As such, sticking with high-quality companies even after potential recent gains could be a shrewd move.

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