One Important Lesson From Warren Buffett

Description

Almost every investor or investing enthusiast must have read at least a snippet of Warren Buffett's annual shareholder letter over the weekend. The massive 20,000-word transcript was a special addition to mark Buffett's 50th anniversary leading **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B). It contained all sorts of investment advice, strategies, and forward-thinking guidance for Berkshire shareholders and investors at large.

Charlie Munger, vice-chairman of Berkshire Hathaway, also talked about the investment mistakes the company made—mistakes that involved not making a purchase rather than making one. "While mistakes of commission were common, almost all huge errors were in not making a purchase," Munger wrote in the letter.

Buffett followed that letter with a one-hour interview on CNBC, where he answered viewers' questions on everything from the rationale behind his investment moves, to politics, his diet, and he even had some advice for Cleveland Cavaliers' LeBron James.

However, one message clearly stood out in all of this: Don't invest in a company just because someone else does so.

That's something Buffett continued to mention on CNBC. It's a piece of advice I will remember for a long, long time. It is an extremely simple and obvious idea, but one that is easier said than done. Investors look up to investment gurus (like Warren Buffett) for guidance, often mimicking their investment moves. I've done that several times too. After all, you can't go wrong if you follow the best of the best, right? Wrong.

Buffett tells investors they should *never ever* invest in a company just because someone credible and successful has done so. He admitted to doing that once when he was in his 20s and he got told off for it. Since then, he has never made that mistake again.

Then again, if a legend like Buffett is increasing his stake in, say, **Suncor Energy Inc.**(TSX:SU)(NYSE:SU), why should investors like you and I not do the same? It should be a safe bet, after all. However, Buffett stresses that investors should try to remember that every person has a different agendas and different objectives. Buffett’s reasons for buying Suncor may be completely different from my investment strategies or objectives, even though both strategies may include a long-term hold in said company. After all, Buffett buying Suncor may only be a means to an end to achieve a bigger goal.

Moreover, investors like you and I don’t have the same resources as Buffett (I don’t know about you, but I definitely don’t have US$73 billion at my disposal!). Nor do we have the same skill set as he does.

So, instead of blindly following popular investors with a great track record, Buffett suggests doing your own research and understanding the potential company thoroughly. Look at its balance sheets and its management. And only if you truly believe that this company will be valuable in the next 5-10 years and will continue to grow, you should park your money there.

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