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WHAT WARREN BUFFETT HAS TO SAY ABOUT SEIZING BIG OPPORTUNITIES

John (Mr. Vintage Value Investing) (https://vintagevalueinvesting.com/author/szramiakje2/) | February 3, 2016 | Most Popular (https://vintagevalueinvesting.com/category/most-popular/), Superinvestors (https://vintagevalueinvesting.com/category/superinvestors/), Warren Buffett (https://vintagevalueinvesting.com/category/superinvestors/warren-buffett/) | 3 Comments (https://vintagevalueinvesting.com/what-warren-buffett-has-to-say-about-seizing-big-opportunities/#disqus_thread)

Warren Buffett has often said that the average investor should practice diversification by investing in index funds.

I’ve written several times (here (https://vintagevalueinvesting.com/whats-an-index-fund-whats-an-etf/), here (https://vintagevalueinvesting.com/how-to-start-investing-part-1/), and here (https://vintagevalueinvesting.com/the-index-fund-vs-active-fund-debate/)) about index funds and how investing in an S&P 500 index fund and using a dollar-cost averaging strategy is a great way to make money in the stock market over the long-run – and this point has been well documented (http://www.nasdaq.com/article/why-dollar-cost-averaging-is-a-smart-investment-strategy-cm354240) by both research and results.

Part of the magic in this strategy is that an investor who doesn’t have much experience and who doesn’t know how to analyze or calculate the intrinsic value of a stock… *doesn’t have to*.

Instead, he or she can invest in **all** of the stocks in the stock market – thereby diversifying risk while earning the average return of the entire stock market (which has historically been ~9.5% over the long-run (http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html)). And Warren evidently agrees with this.

However, Warren Buffett sings a very different song for investors who want to beat the average stock market return.

WARREN BUFFETT ON DIVERSIFICATION

Warren does not believe an investor who wants to generate an above-market return should diversify his or her holdings. Here are some of his quotes on this subject:

> *Diversification is a protection against ignorance. It makes very little sense for those who know what they're doing.*

> *Wide diversification is only required when investors do not understand what they are doing.*

> *The strategy we've adopted precludes our following standard diversification dogma. Many pundits would therefore say the strategy must be riskier than that employed by more conventional investors. We disagree. We believe that a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it.*

Warren's saying that if you invest in too many stocks in pursuit of portfolio diversification, you (a) take yourself out of your circle of competence and (b) lose the intensity and concentration that you would have if you were only thinking about a *few* great businesses.

WARREN BUFFETT ON SEIZING BIG OPPORTUNITIES

Warren Buffett described the below analogy during a lecture (https://www.youtube.com/watch?v=2a9Lx9J8uSs) he gave to University of Georgia business school students in 2001. This “20 slot punch card” approach to investing underscores just how *focused* Buffett is when it comes to investing and highlights how we should all seize and capitalize on *big opportunities* when they come our way.

> ***Big opportunities in life have to be seized.*** *We don’t do very many things, but when we get the chance to do something that’s right and big, we’ve got to do it. And even to do it in a small scale is just as big of a mistake almost as not doing it at all. I mean, you really got to grab them when they come. Because you’re not going to get 500 great opportunities.*
>
> ***You would be better off if… you got a punch card with 20 punches on it. And every financial decision you made you used up a punch.*** *You’d get very rich, because you’d think through very hard each one. I mean if you went to a cocktail party and somebody talked about a company and they didn’t even understand what they did or couldn’t pronounce the name but they made some money last week in another one like it, you wouldn’t buy it if you only had 20 punches on that card.*
>
> *There’s a temptation to dabble – particularly during bull markets – and in stocks it’s so easy. It’s easier now than ever because you can do it online. You know you just click it in and maybe it goes up a point and you get excited about that and you buy another one the next day and so on. You can’t make any money over time doing that.*

*But **if you had a punch card with only 20 punches, and you weren't going to get another one the rest of your life, you would think a long time before every investment decision** – and you would make **good ones** and you'd make **big ones**. And you probably wouldn't even use all 20 punches in your lifetime. But you wouldn't need to.*

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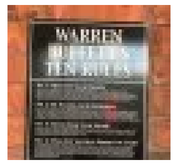

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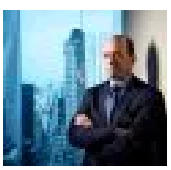

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