Investment strategies of famous investors

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Generating a superior rate of return consistently from the equity market over a long time horizon requires understanding of market mechanisms and a definitive investment strategy. Today's article will focus on how some of the most brilliant minds in the history of investing generated superior rate of returns.

As discussed in our previous articles it is vital that investors formulate investment strategies based on their financial goals and risk appetite. Hence one could never completely follow another's strategy as financial goals and risk appetites defer. The article will broaden your horizons to varied investment strategies that could be taken in to consideration when constructing your strategy.

Warren Buffett

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."

If you want to emulate a classic value style, Warren Buffett is a great role model. Early in his career Buffett said, "I'm 85% Benjamin Graham". Graham is the godfather ofvalue investing and introduced the idea of intrinsic value (the underlying fair value of a stock based on its future earnings power). But there are a few things worth noting about Buffett's interpretation of value investing.

First, like many successful formulas, Buffett's theory looks simple. But simple does not mean easy. Buffett uses 12 investing tenets which are categorized as business, management, financial measures and value. It guides him in his decisions.
Second, the Buffett "way" can be viewed as a core, traditional style of investing that is open to adaptation. One of the compelling aspects of Buffettology is its flexibility alongside its phenomenal success. If it were a religion, it would not be dogmatic but instead self-reflective and adaptive to the times. This is a good thing.
The three management tenets are given below.

Business
Buffett adamantly restricts himself to his "circle of competence" - businesses he can understand and analyze. As Hagstrom writes, investment success is not a matter of how much you know but rather how realistically you define what you don't know. Buffett considers this *deep understanding of the operating business* to be a prerequisite for a viable forecast of future business performance.

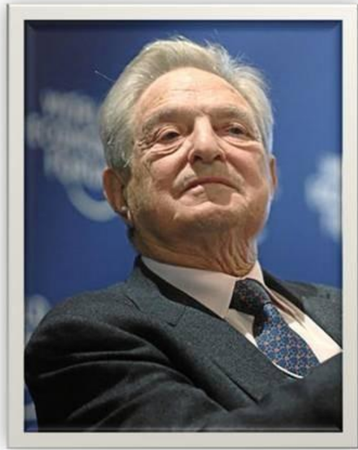
Management
This is perhaps the most difficult analytical task for an investor. Buffett infers if the management is rational and if the management is wise when it comes to reinvesting (retaining) earnings or returning profits to shareholders as dividends.

Financial Measures
Buffett focuses on Return on Equity (ROE) rather than on Earnings Per Share.

Value
Buffett seeks to estimate a company's intrinsic value. It is summarized as "bond math." Buffett projects the future owner's earnings and then discounts them back to the present. Keep in mind that if you've applied Buffett's other tenets, the projection of future earnings is, by definition, easier to do, because consistent historical earnings are easier to forecast.
Buffett's tenets constitute a foundation in value investing, which may be open to adaptation and reinterpretation.

George Soros

"*Markets are constantly in a state of uncertainty and flux, and money is made by discounting the obvious and betting on the unexpected.*" – George Soros



George Soros was another 21st century financial titan, who was born in Budapest in 1930. Soros subscribes to the concept of "reflexivity" social theory, adopting a set of ideas that seeks to explain how participants in a market value assets.
Where Buffett seeks out a firm's intrinsic value and waits for the market to adjust accordingly over time, Soros relies on short-term volatility and highly leveraged transactions. In short, Soros is a speculator. The fundamentals of a prospective investment, while important at times, play a minor role in his decision-making.
He believed that financial markets can best be described as chaotic. The prices of securities and currencies depend on human beings, or the traders - both professional and non-professional - who buy and sell these assets. These persons often act out based on emotion, rather than logical considerations.

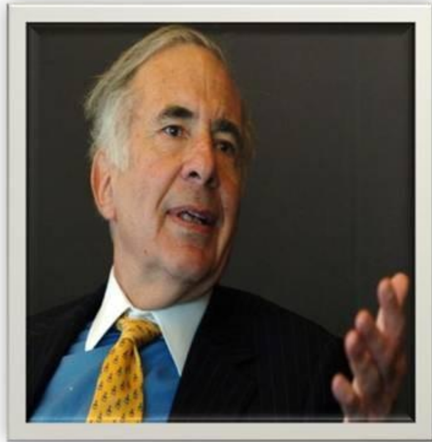
He also believed that market participants influenced one another and moved in herds. He said that most of the time he moved with the herd, but always watched for an opportunity to get out in front and "make a killing." How could he tell when the time was right? Soros has said that he would have an instinctive physical reaction about when to buy and sell, making is strategy a difficult model to emulate.

Can regular investors invest like George Soros? It takes moxie and it takes confidence, two attributes that Soros has in abundance. Once he makes up his mind, Soros often goes "all in" on a position, holding the view that no investment position is too large - as long as it's the correct position.

Perhaps the biggest take away from the Soros method is that you can't be too bold once your mind is made up on a market move. One of Soros's favorite maxims is "to be in the game, you have to endure the pain." For regular investors, that means picking the right broker/advisor – and sticking with that broker/advisor – taking a "trial and error" approach to one's portfolio decisions and keeping emotion out of one's investment picks.

Carl Icahn

"In life and business, there are two cardinal sins ... The first is to act precipitously without thought, and the second is to not act at all." – Carl Icahn



Carl Icahn has spent his entire career in Wall Street proving the conventional wisdom wrong and pocketing billions in profits. Icahn is a game-changer in the annals of Wall Street.

Despite his widespread reputation as a buyout specialist, Icahn at heart is a value investor looking for so-called "cigar butt" companies that still offer value to investors, even as most investors don't see those opportunities. It's simply the way Icahn travels to that value destination that differentiates him from other contrarians like Buffet and George Soros.

Icahn's target is high, but unusually simple – target a specific company, and go about the business of acquiring enough shares to give him controlling interest in the firm, thus making him "first" among company shareholders.

If you want to emulate Icahn it is important to follow the following.

- Do your due diligence.
- Don't bow to the doubters. If you have done your homework and you like what you see, stick to your convictions.
- Find an investing strategy that suits your needs and your investment personality.
- Learn what really triggers a big move in the financial markets - and why.
- Be creative and use social media to follow stocks.
- Build a network of investment resources you can turn to time and time again (Icahn calls those "power networks.")

John Templeton

"If you want to have a better performance than the crowd, you must do things differently from the crowd."

Templeton became a billionaire as a true pioneer of globally diversified mutual funds, including the Templeton World Fund, which was formed in 1978. His flagship Templeton Growth Fund posted a 13.8% annualized average return from 1954 to 2004, well ahead of the Standard & Poor\'s 11.1%.

He was on the watch for value investments, what he called "bargain hunting" by searching out such targets in many countries instead of just one. Templeton's investing mantra was "search for companies around the world that offered low prices and an excellent long-term outlook."

As a value-contrarian investor, Templeton believed that the best bargains were in stocks that were completely neglected - those that other investors were not even studying. In this regard, he had an advantage not readily available to the average individual investor – his residence in Lyford Cay in the Bahamas. The Lyford Key Club was populated with successful businessmen from all parts of the world. Templeton found he could easily exchange ideas and opinions with them in that attractive ambiance, which, for him, worked better than networking with Wall Street contacts with limited information who were always trying to sell him things. Templeton systematically mined his numerous contacts for valuable, objective investment data, which in his case related to market conditions and investment targets around the world.

Thus it is evident that at times building networks can earn you profits from the market. However investors should be cautious about the credibility of the news derived by theses networks.

The footsteps of these famous investors could shed light on your journey of investment. But be creative and formulate a strategy that suits your needs. It is only then that you will be able to be ahead of the rest and reap benefits. Remember that nothing worthwhile ever happens quickly and easily. You might not be able to come up with the ideal or the most suitable investment strategy at first. You might fail at first. Not all investments were profitable even for the greatest investors. But with time you will succeed.