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Investment sage's advice tailored for UK investors

Strategy: Diversify globally and spread money across more asset classes

What can savers learn from US business magnate, investor and philanthropist Warren Buffett? Barry O'Neill, investment director for Carbon Financial Partners in Aberdeen, considers advice from the man they call the Sage of Omaha

One day we will be lamenting the loss of one of the world's most successful and enlightened investors, Warren Buffett.

In the meantime, in true Buffett style, he has already laid out very clear instructions for how the money his wife would inherit on his death should be invested.

It is completely consistent with his advice to all investors over the years; keep costs as low as possible, invest in a combination of a cash-like (low risk) short-

bond fund and a broadly diversified, passively managed, stock market tracker fund – and then leave well alone.

This solution certainly has elegant simplicity but it flies in the face of virtually everything that the investment industry throws at investors.

The key difference between the two is the motivation. Buffett wants his wife to have the best chance of investment success by avoiding all of the high fee-charging actively managed funds and the fad products of the day, while the industry's motives are simply to sell as much expensive product as possible.

Although the advice of the "Sage of Omaha" is likely to stand the test of time, it can be improved on for UK investors.

For example, he advises the trustee of



INSTRUCTIONS: Billionaire investor Warren Buffett, right, with Microsoft co-founder Bill Gates

his wife's bequest to invest only 10% of the money in short-term government bonds and the balance of 90% into US large company shares.

This is an aggressive asset allocation strategy, which comes with an inherent level of risk that many investors in the UK will find unpalatable and unnecessary.

It also ignores the powerful diversification benefits which come from in-

vesting globally, rather than solely or almost exclusively in your home market.

Home bias is practised around the world and US investors have greater justification for it than anyone else, given that their domestic stock market accounts for more than 40% of the world's market capitalisation.

However, the benefits of diversifying globally are now well-documented in

many academic research papers.

Another potential enhancement to the simple bond and stock portfolio espoused by Buffett would be to spread the money across more asset classes.

These might include property as this displays different risk and return characteristics to bonds and shares.

There are also sub-asset classes that have strong academic evidence in

support of inclusion in a modern portfolio, namely shares in small businesses or firms with stock priced at a discount to their book value – known as "value" companies.

Curiously, Buffett has made his fortune from a "value" style of investing – the difference being that rather than using a collective investment to access this asset class, he achieved it by buying the companies outright.



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