

# Should You Start Buying Stocks in 2014? Here's What Warren Buffett Thinks

By [Jordan Wathen](#)

January 5, 2014



"You see, Barack, if you have the time, it's worth it!"

Make no mistake, buying individual stocks is hard work. Compared to the plain-vanilla option of buying mutual funds or an index fund, owning and managing a portfolio of your own stock picks simply takes more time.

How much more time? Warren Buffett suggests it takes at least 6-8 hours per week. At one of his annual shareholder meetings for **Berkshire Hathaway** investors, Buffett said the following:

If you like spending 6-8 hours per week working on investments, do it. If you don't, then dollar-cost average into index funds.

## Why 6-8 hours per week?

It's interesting that Buffett would set the benchmark at 6-8 hours per week to manage a portfolio of investments. The truth is, you could spend 6-8 hours a week just reading *The Wall Street Journal* from A1 to D22 every morning.



But here's the rub: Spending time following general investment ideas won't take you very far. That is to say, you're not going to find great investment ideas by reading the news. (Any successful investor is reading the news, anyway.) You find them by reading the source documents -- the annual reports, conference calls, and industry papers.

And, if you spend 6-8 hours a week reading the above source documents, you're likely to run into great reasons to own any given investment.

### **Is 6-8 hours a week worth it?**

If we assume it does take 6-8 hours a week to find new, great investments, then we also have to ask ourselves if such an investment is truly worth it.

The Motley Fool is stacked with investing nerds. We're all here because we love investing. I can't even tell a difference between work I do for the Fool and what I do for my "hobby" because investing is part of both my work and play.

If you fall into that camp -- the camp that truly enjoys the "process and the proceeds" of investing, then buying individual stocks is absolutely something you should do. If it's painful to read through an annual report, or even think about a company and how it makes money, beats its competitors, and delivers returns to investors, [you should probably stick to the index](#).

### **How I'd spend 6-8 hours per week**

If I were to limit myself to just 8 hours per week, I'd have to make some serious changes to how I investigate stocks. But I do think it's possible to be an informed investor while limiting yourself to just eight hours per week.

Fool contributor Jordan Wathen has no position in any stocks mentioned. The Motley Fool recommends Berkshire Hathaway. The Motley Fool owns shares of Berkshire Hathaway.



First, I'd spend a solid four hours per week reading through annual reports and conference calls. This is single-handedly the best way to understand individual companies and industries. Once accustomed to the formatting of an annual report, navigating them takes much less time than one would think.

Second, I'd dedicate another two hours per week to careful study of an industry as a whole. As I write primarily about financial stocks and real estate, I'd dedicate two hours to a book that walks me through the industry. The first week, I might start with an overview of the history of banking. The next week, perhaps a book on the 1980s savings and loan crisis to get a feel of what bad banking is. You get the idea. Eventually, this time can be reallocated to new industries, or to the source documents.

Third, for someone who wants to maximize their time, another hour should be spent reading analyst reports. Here you'll learn the metrics that are important to an industry you think you'll want to invest in in the future. For banks, a big metric is net interest margin. For retailers, it's sales per square foot. For insurance, it's the combined ratio. You can learn the numbers that matter, quite quickly, by reading the work of people who have to make a business make sense in fewer than 10 pages.

Finally, the last hour would be dedicated to valuation and portfolio diversification. Being a long-term Warren Buffett investor -- a Foolish investor -- isn't about building the perfect spreadsheet. It's about finding the very best businesses and holding them for as long as you can. I'm a big believer in the idea that spending more time on valuation will be more favorable to a bad business than a great business. Spend less time, and you'll only hold great businesses in your portfolio -- the obvious buy and hold stocks.

### **The Foolish bottom line**

Managing your own portfolio is hard work, but with a concentrated effort of 6-8 hours per week, you can find great stocks to own for the long haul. Luckily, knowledge acquired in investing spills over in every facet of life. Understanding finance may put you in a better spot for a promotion at work. Knowing your way around a balance sheet may help you better understand your own net worth. If investing is your passion, and you have 6-8 hours to dedicate to the cause, you should absolutely do so.