III Investing Daily



Why Follow Buffett?

His picks have grown Berkshire Hathaway into the "ultimate blue chip" company. He's beaten the S&P 500 in the last 27 out of 31 years.

Simply put, he's the world's greatest investor.

So following Buffett trade for trade is a no brainer right?

Some investors describe the strategy of mimicking the trades of celebrity super-investors like Buffett, George Soros, Kirk Kerkorian and others as "coattailing." But of all the super-investors to follow, Buffett is the most popular....and for good reason.

But is "coat-tailing" Buffett really the best way to maximize your returns?

If You Coat-Tail...

Allocate your shares properly



Since you won't be able to buy the same number of shares Buffett's multi-billion dollar portfolio invests in, one way to make sure you're allocating the same as Berkshire Hathaway is to figure out what percentage each holding makes up, and apply it to your portfolio.

Update your portfolio



After you've created your Buffett coat-tail portfolio, don't forget about updating it. While Warren Buffett is known for his buy-and-hold philosophy, don't think that he never unloads stocks that aren't performing. If you don't take a look at Berkshire's portfolio regularly, you could be missing out.

Beware of fees



Because Berkshire has so much capital, it may make small changes in the amount of shares it owns in any given stock from month to month. Since your portfolio is not as big as Buffett's, commissions will probably get in the way of staying allocated exactly like Berkshire. Be selective in which trades you follow, and try to stay true to the general allocations of Buffett's portfolio.

What's Buffett Been Buying and Selling?



The freshest deal in which Buffett has swapped holdings with private equity was in shares of Axalta Coating Systems Ltd. (NYSE:AXTA).

The company announced that a Berkshire Hathaway affiliate entered into an agreement with certain affiliates of Carlyle Group L.P. (NASDAQ: CG) to buy 20 million common shares of Axalta for \$28.00 per share.

Maybe this is a public stock, but it came from private equity.



The hot dish in the TV business is that "cable is dying." Millennials are cutting the cord in droves.

But Buffet upped his stake by \$450 million in Charter Communications, Inc. (NASDAQ: CHTR), a major telecom that provides cable service to nearly 6 million customers.

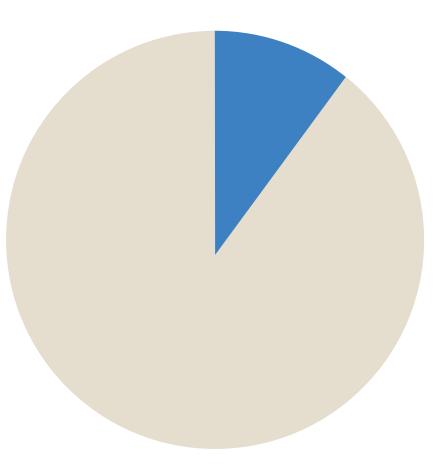
What does Buffett know that the "conventional wisdom" doesn't?



Buffett sold off all of his shares in Phillips 66 (NYSE: PSX) and National Oilwell Varco (NYSE: NOV) in the 2nd quarter of 2015... part of his continuing to unload energy companies amid a global supply glut that has sent crude prices into a tail spin.

In the 1st quarter, he dumped his holdings in Exxon Mobil (NYSE: XOM) and ConocoPhillips (NYSE: COP). Given that Buffett has said that his favorite holding period is "forever," seeing him unload major energy companies certainly doesn't indicate that he sees things getting better anytime soon.

And If You Dig Just A Little Further...



We all know about the big companies Buffett owns, but here's something many people don't know.

A small sliver of Berkshire Hathaway's portfolio represents small-cap companies that don't get much publicity.

Just how does he find small-cap companies worthy of his portfolio?

The companies must have a history of a strong return on equity, good profit margins, "acceptable" debt levels, and a history of shareholder-friendly decisions by the company's management.

But most importantly, Buffett looks for companies that have some kind of distinct advantage over its competitors that will allow it to make money for the foreseeable future... for example, having a superior product than its competitors, or simply that the company is big enough to operate more efficiently than anyone else.

This advantage might be the toughest to identify in small-cap companies. After all, these companies are often smaller than several of their competitors, and are less covered by the financial media; so identifying a competitive advantage can be rather difficult.

Buffett's "Hidden" Small Caps













Wabco Holdings Inc (NYSE: WBC)

Chicago Bridge & Iron Co (NYSE: CBI)

Graham Holdings Co (NYSE: GHC)

Now Inc (NYSE: DNOW)

Media Gen Inc (NYSE: MEG)

Lee Enterprises Inc (NYSE: LEE)



Individual investors have a distinct advantage over me because of their smaller size. I simply can't buy some of the stocks I would like to because they are too small. But you can!



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