

## Sidelines

# Follow That Billionaire

RICH INVESTORS LIKE Warren Buffett (*see p. 70*) didn't get that way by making bad stock picks. They leave tracks in various Securities &

Exchange Commission filings. Why not follow in those tracks?

A whole industry of Buffett groupies and hedge fund trackers exists to knock off investment ideas. One of these trackers, Mebane Faber, has quite a following on Forbes.com and his own portfolio-cloning site. The power of follow-the-leader trading was made starkly visible one day in 1997 when it appeared from an SEC filing that Berkshire Hathaway had exited its Wells Fargo position, taking the bank's stock down seven points. It turned out that the oracular stock picker had put Wells on a confidential disclosure form.

Maybe you could do well with a footstep-following strategy. But here are a few cautions.

One is that the spectacular results you are trying to imitate may not be due to stock picking. Hedge funds make money in currencies, commodities and derivatives that are not to be found on those public 13F filings. Buffett's wealth has a lot to do with using Berkshire's balance sheet to extract profit from insurance underwriting and credit spreads. You can't do that.

Next problem is that the smart guys hide their tracks. A fascinating paper published a few months ago by four academics (Vikas Agarwal et al.) looked at 55,185 standard 13F filings and 1,958 confidential ones (which get delayed disclosure). On average, big institutions can't beat the market, but positions



shown in confidential filings did deliver excess returns over four months.

Even when a money manager

doesn't get confidential treatment, the lag of weeks to months in the revelation of stock positions means that you can't use the copycat technique on a busy trader.

Last problem is that you don't really know whom to follow. Buffett was just the right person to copy beginning in 1965. We didn't know it then. He may not do so well over the next ten years. Could be that some of his favorites, like Coca-Cola and Procter & Gamble, are overbought. A 1986 creation called the Wealth Monitors Fund aimed to follow not just Buffett but also other apparent geniuses like Saul Steinberg and Irwin Jacobs. The fund flopped.

If you still want to play the copycat game, don't try to make a killing. Just use the technique to ape a low-turnover mutual fund with a great record. Vanguard Primecap has closed its doors; imitate it with positions in blue chips like FedEx and Amgen. There are a number of small-company funds with excellent ten-year results whose main sin is a high expense ratio, like Franklin MicroCap Value. Dodge that cost by copying. For details, see [forbes.com/knockoff](http://forbes.com/knockoff).

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