



## The 3 Best Buffett Stocks for Retirees

### Description

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Every stock Warren Buffett buys isn't guaranteed to do well. Even the Oracle of Omaha makes mistakes now and then. But using Buffett's portfolio as a source of investing ideas is a fine course of action, especially if you're looking for high-quality companies that can stand the test of time.

Retirees who want solid, stable investments need look no further than **Wells Fargo** ([NYSE:WFC](https://www.nyse.com/quote/NYSE:WFC)), **Kraft Heinz** ([NASDAQ:KHC](https://www.nasdaq.com/markets/kraft-heinz)), and **General Electric** ([NYSE:GE](https://www.nyse.com/quote/NYSE:GE)), which are all major Buffett stocks.

### The world's largest regional bank

**Cory Renauer (Wells Fargo & Co):** Retirees looking for steadily growing dividend income should consider this unique Buffett stock. Don't let its size fool you: This bank might have the heft to compete toe to toe with the big investment banks, but its operations more closely resemble those of a small regional bank than a Wall Street titan.

Wells Fargo is America's leading gatherer of customer deposits, a very cheap source of capital. Last year's total interest expenses of about \$5.91 billion worked out to just 0.3% of total assets at the end of the year. For comparison, **Goldman Sachs'** total 2016 interest expenses were around 0.8% of total assets at the end of the year. Cheap capital costs have helped Wells Fargo generate a higher return on assets than Goldman Sachs during nine of the past 10 years.

Of course, retirees need to worry about the years ahead, and past performance isn't a guarantee of future success. Luckily, Wells Fargo's economies of scale should help it remain profitable for many years to come. For example, hiring experts to wade through reams of financial regulations isn't cheap, but this Goliath can spread the cost throughout its extensive network of operations.

Wells Fargo also benefits from relatively high switching costs for its customers. Most of its customers have multiple accounts, and jumping ship for competing services often isn't worth the effort. The recent unauthorized account-generating scandal may have tarnished a reputation that took decades to build.

So far, it seems that relatively few of the bank's customers found the news disturbing enough to take their savings elsewhere. Average deposits in the fourth quarter of 2016 rose 7% over the previous-year period.

At recent prices, the stock offers a healthy 2.86% dividend yield, which you can reasonably expect to grow steadily. Last year's payments consumed just 41.2% of profits. This payout ratio may be higher than many of its peers, but it's about average for Wells Fargo, and leaves plenty of room for increases in the years ahead.

## World-class brands

**Tim Green (Kraft Heinz):** Global food company Kraft Heinz, formed in 2015 from the merger of Kraft and Heinz, is a wildly profitable company with a large stable of well-known brands. These include Kraft and Heinz, of course, as well as Oscar Mayer, Jell-O, Maxwell House, Philadelphia, Grey Poupon, Planters, and dozens more.

Berkshire Hathaway owns more than one-quarter of the company, with its stake valued at nearly \$30 billion. Kraft Heinz is Berkshire's largest holding, which should give investors quite a bit of confidence that the company is a solid long-term bet. Kraft is wildly profitable, and enjoyed an operating margin of 23.2% in 2016, and it throws off a solid dividend, yielding 2.6%. For retirees wanting a stable dividend stock, Kraft Heinz is an excellent choice.

Every stock comes with some risk, and Kraft Heinz is no exception. The company has a lot of debt — \$32.4 billion at the end of 2016 — and the possibility of a major acquisition could push the company's debt load up even higher. Rumors of a possible bid for either **Mondelez** or **PepsiCo** have emerged, both of which would be extremely expensive. If Kraft Heinz ends up buying another giant food company, there would be plenty that could go wrong.

Despite these risks, Buffett's massive stake in the company should give investors some comfort.

## Extreme Makeover: Blue chip stock edition

**Tyler Crowe (General Electric):** You have to give a company like General Electric credit. For a company that's over 100 years old and was founded on manufacturing consumer products like light bulbs, General Electric has no problem tearing the company down and building around a new strategy, when necessary. The company has been in the midst of a teardown/rebuild phase lately, and the company that's emerging looks like one that retirees will want to own for the next several years.

A decade ago, General Electric was the poster child for a diversified conglomerate. It manufactured industrial goods and consumer products, had a massive media empire with its stake in NBC/Universal, and its finance arm, GE Capital, was so large that it was considered a systemically important financial institution following the financial collapse in 2008. The trouble with such diversification, though, was that the company lost focus and struggled to allocate capital to all the necessary places.

As a result, CEO Jeff Immelt started a complete reboot of the company. NBC/Universal? Gone. Consumer goods? Gone. GE Capital? Significantly reduced to just a captive finance arm for its industrial products. In its place, the company is focusing on manufacturing industrial goods and using Big Data to revolutionize the way those industrial products are used.

Today, almost all of GE's industrial products have some sort of remote sensing capability that collects immense amounts of data. That data is collected and analyzed using GE's Predix software platform, which can detect early signs of fatigue, as well as optimize operations of a given product.

This real-time analysis is extremely valuable for GE's customers, and is becoming a very lucrative service business for GE. By 2020, GE estimates that subscriptions for Predix will generate \$15 billion in revenue annually, and so far, it has been a high margin business for the company. With a renewed focus on manufacturing excellence and bringing the Internet of Things to the Industrial world, General Electric is entering its next corporate iteration, which looks to be at the vanguard of the integration of data analysis into our everyday lives.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. NASDAQ:KHC (Kraft Heinz Intermediate Corporation II)
2. NYSE:GE (General Electric Company)
3. NYSE:WFC (Wells Fargo)

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