3 Stocks Warren Buffett Can't Buy, but You Can

Description

This article was originally published on Fool.com

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As arguably the world's most successful stock picker, it's no surprise that Warren Buffett is watched closely by investors around the world. At the end of last quarter, Buffett's **Berkshire Hathaway** (NYSE:BRK-B)(NYSE:BRK-A) boasted an investment portfolio worth a staggering $187 billion, including more than $133 billion in equity securities.

But with that size comes decreased flexibility. In some cases, that's due to the fact that — short of an outright acquisition — Buffett can't buy enough shares of smaller companies to move the needle in his enormous portfolio. In other cases, it's not in his best interests to allow his stakes to grow any larger.

So we asked three top Motley Fool contributors to offer examples of stocks that you can buy that are out of Buffett's reach. Read on to learn why they chose **Netgear**(NASDAQ:NTGR), **Wells Fargo** (NYSE:WFC), and **BofI Holding** (NASDAQ:BOFI).

A small tech player with room to grow

Steve Symington (Netgear): Buffett has crushed the market for decades while mostly eschewing tech stocks. To be fair, he does own roughly 50 million shares of **IBM** even after trimming his stake in the computing juggernaut earlier this year. And SEC filings in March revealed Berkshire opened a sizable position in **Apple** last quarter.

But I think investors could do even better buying shares of Netgear, a networking hardware specialist that's just too small to have any meaningful influence on Buffett's overall returns.

That's not to say Netgear's most recent results *look* impressive on the surface. First-quarter revenue climbed just 4.3% year over year to $323.7 million, and adjusted net income declined 11.8% to $21.7 million, or $0.64 per share. But those results were well above Netgear's guidance and Wall Street's expectations. And its overall growth is being held back by declines in its service provider business, which Netgear restructured in 2015 as customers for the segment began to transition away from making wireline investments.

Meanwhile, sales of Netgear's Arlo wireless security cameras, services, and accessories jumped an impressive 150% year over year last quarter to $60.7 million. And Netgear continues to enjoy solid retail demand for Connected Home products, including strong demand for its high-margin Nighthawk routers and Orbi Wi-Fi products. But perhaps most enticing are the impending launches of Netgear's Arlo Baby and Arlo Go weatherproof camera products this quarter, which should together significantly expand Netgear's addressable markets and help reaccelerate growth even if service provider sales continue to wane.

In the end, I think investors willing to pick up shares of Netgear before that happens should handily beat the market in the coming years.

Don't misunderstand this Buffett-sold stock

Dan Caplinger (**Wells Fargo**): Warren Buffett has recently sold off some of his shares of Wells Fargo, and many investors erroneously assumed that his sales came due to the banking giant's recent scandal involving employees fraudulently opening customer accounts in order to meet sales goals. However, Buffett was quick to explain the real reason behind his Wells Fargo sales, showing that he still sees the bank's stock as a smart investment.

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Buffett had accumulated a large enough stake in Wells Fargo that stock buybacks by the bank had pushed his position above the 10% mark. That would have triggered additional regulatory scrutiny under the federal Change in Bank Control Act, and after discussions with the Federal Reserve, Buffett came to the conclusion that it made sense to sell off enough shares to push the position size back below 10%.

With Buffett having said that he intends not to make any sales beyond whatever is necessary to keep the position below 10% going forward, potential new investors can still feel the confidence that investing alongside the Oracle of Omaha can bring. Given Wells Fargo's historically strong management and the leadership of new CEO Tim Sloan, your ability to buy where Buffett can't would give you a chance to enjoy in the banking giant's future growth.

A great bank that's just too small for Berkshire to buy

Jason Hall (**BofI Holding**): One of the problems with Berkshire's success is that the company has gotten so big, it can't invest in many high-growth companies that otherwise might be right up Warren Buffett's alley. BofI Holding is one of those companies.

With a market cap of $1.5 billion, Berkshire could buy the whole bank and it would hardly move the needle. Second, Berkshire *can't* buy the whole company. Technically, Berkshire isn't supposed to own more than 10% of any bank without getting government approval, and then remaining a "passive investor" limiting its ability to interact with the bank's management or take a position on its board.

But that doesn't mean BofI isn't a stock that you should avoid. To start, it has numerous advantages over traditional banks, including an operating model without physical branches which makes it fare more profitable and efficient. Last quarter, BofI's efficiency ratio — how much of its revenues go toward operating expenses — was 31.7%, less than half that of most traditional banks.

BofI has also steadily grown assets and profits at double-digit rates, mostly from residential mortgage growth. But management is aggressively investing in building out multiple other lending businesses, including auto, commercial and industrial, and business equipment lending. Not only will this provide more growth potential, but will also help diversify its risk.

Lastly, BofI is cheap, for such a high-quality, profitable bank, mostly because the bank has had some PR issues. Trading for less than 14 times last year's earnings and less than 2 times book value, BofI is trading at a nice discount for its profitability and growth potential.

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TICKERS GLOBAL

1. NASDAQ:NTGR (NETGEAR, Inc.)
2. NYSE:WFC (Wells Fargo)

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Date
2025/08/13
Date Created
2017/05/23
Author
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