How to Invest Successfully Like Warren Buffett

Description

With the North American stock markets trading near their all-time highs, it's a good time to review how one of the greatest value investors of our time, Mr. Warren Buffett, invests successfully.

Buy wonderful businesses at bargain prices

Buffett's only rule to investing is to never lose money. One way he does that is by aiming to buy wonderful businesses at bargain prices. This means that he's willing to sit on a huge stash of cash until bargains in great businesses arise.

This principle has led to Buffett's **Berkshire Hathaway** to compound book value per share by 18.7% annually from 1965 to 2018, while the stock compounded at 20.5% per year, significantly outperforming the **S&P 500** total returns of 9.7% per year in the period.

Berkshire's top 10 holdings as of the end of the first quarter were **Apple**, **Bank of America**, **Coca-Cola**, **Wells Fargo**, **American Express**, **Kraft Heinz**, **U.S. Bancorp**, **JPMorgan Chase**, **Moody's**, and **Delta Airlines**.

That's a big exposure to the financial services sector, including having four banks in the top holdings. Investors can mimic Buffett's success by having long-term exposure to the banking sector. And we have a bargain banking stock close to home.

A wonderful business trading at a bargain price

The big Canadian banks are wonderful businesses that have outperformed the market returns at below-average risk. Among the Big Six banks, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock appears to be the only one that's trading at a big bargain.

Scotiabank is a wonderful business. Its track record of return on equity (ROE) is very good. Since 2009, its ROE has been between roughly 13% and 19%. The ROE being consistently in a teens range indicates that overall the bank has allocated cash wisely.

This has allowed the international bank to increase its dividend per share at a stable rate of 6.6% per year over the past eight years. The bank has a payout ratio of less than 50% and is estimated to grow its earnings per share by about 5-6% per year. Therefore, it should continue increasing its dividend by about 5-6% per year over the next few years.

BNS stock trades at a big discount. It trades at a price-to-earnings ratio (P/E) of about 10, while its long-term multiple is about 11.9. The P/E multiple expansion can boost returns by about 6% per year over the next three years. Additionally, the stock also offers a 4.9% yield and stable growth. Altogether, the stock can deliver total returns of about 10-17% over the next few years.

Foolish takeaway

Invest successfully by following Warren Buffett's footsteps — buy wonderful businesses at bargain prices. It's all the more wonderful that Scotiabank stock fits the description and offers a juicy secure dividend that adds to the overall returns!

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