



## A Stock Warren Buffett Fans Should Buy for 2020

### Description

If you consider yourself to be a follower of Warren Buffett, then you've likely followed the 13-F filing of Warren Buffett and **Berkshire Hathaway** very closely.

While it's never a good idea to follow a guru into investments, as your cost bases will likely be much higher (due to the "Buffett premium") and you won't know when it's time to throw in the towel, it's a good idea to look to the top-down "bread crumbs" that Buffett's (or Berkshire's) investments leave behind, so you know the approximate area of where the next big opportunity may lie.

In many [prior pieces](#), I urged investors to pay attention to Buffett's bets on the stocks of the U.S.-based airlines, noting that there was an opportunity to be had on the broader industry given the breadth of his airline investments.

Moreover, there was an opportunity, I thought, to avoid a "Buffett premium" by investing in **Air Canada**, a name that Buffett didn't own, but still stood to benefit from the profoundly positive industry trend that Buffett recognized.

"Back in 2016, I drove home the point that the airlines were experiencing a paradigm shift and were no longer bankruptcies waiting to happen, as they once were seen to be by prudent investors." I wrote.

"Consider the vast operational improvements and efficiencies that have been unlocked since the pre-2007 levels. It's like Air Canada is now a completely different business — a more investable business that won't crush its investors come the next inevitable economic downturn."

As it turned out, the low-single-digit P/E multiple on Air Canada was unsustainably low, and the Warren Buffett-inspired "industry-wide paradigm shift" thesis led to multi-bagger gains (AC has soared over 450%) since my [original 2016 recommendation](#).

Now that the airlines have soared above and beyond, the opportunity is all but gone. Fortunately, Buffett may see the next big value opportunity in the furniture space, as exhibited by his bet on Restoration Hardware **RH**, an upscale home-furnishing firm.

In a [prior piece](#), I noted that **Leon's Furniture** ([TSX:LNF](#)) was a Canadian way to bet on emulate Warren Buffett and his stake in the Nebraska Furniture Mart. And Buffett's new stake in RH reinforces my stance on the furnishers and Leon's as a cheaper way to ride on his coattails.

Home furnishings are a big-ticket discretionary spend. Given that the Canadian economy is not nearly as hot as that of the U.S., it's expected that Leon's lacks the same magnitude of sales catalysts over the near term.

Over the next decade and beyond, however, I do see furnishers (notably upscale ones) as riding massive tailwinds as millennials, a generation that hasn't been big into homeownership due to financial reasons, finally save enough to get a mortgage on a home and with that the necessary furnishings.

The Canadian economy has been rather sluggish of late, but that's likely more than baked into the stock at this juncture. With high-end furniture offerings showrooms available at select locations, I do see Leon's as more of a furnisher that's gravitating toward the higher-end segment of the market (RH's niche). As such, I see Leon's stock as severely undervalued given tailwinds that few investors other than Buffett recognize.

Today, Leon's trades at 10.8 times forward earnings and 0.55 times sales. It's a retailer that's been unfairly penalized over concerns that I believe are short-term in nature.

If you've got a decade-long time horizon and want to follow Buffett into an industry that could possess the next big multi-baggers, look no further than Leon's, an out-of-favour retailer that's far more robust than most investors would give it credit for.

I'd buy the stock here, hold it and maybe it will enrich investors just like the airlines did.

Stay hungry. Stay Foolish.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:LNF (Leon's Furniture Limited)

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