Warren Buffett: Long-Term Investors Should Stick to Stocks Not Bonds

Description

Risk-averse investors pick bonds as the safest assets to own. But if you were to follow the advice of Warren Buffett, investors are better off investing in stocks. However, he has a qualifying statement.

Bonds are less risky over shorter periods, although stocks should deliver higher returns over the long run. Buffett notes that investors often measure investment risk by maintaining a higher ratio of bonds to stocks in their portfolios.

He argues that it's a "terrible mistake" owning bonds for the long term. There's a risk that rising inflation can eat away at the returns.

Portfolio of value stocks

Buffett recommends owning a diversified portfolio of value stocks. The legendary invests in U.S. companies only, but his conglomerate has holdings in two Canadian companies: **Restaurant Brands** (TSX:QSR)(NYSE:QSR) and **Suncor** (TSX:SU)(NYSE:SU).

As of September 30, 2019, and based on the S.E.C. filing of November 2019, **Berkshire Hathaway** owns 8,438,225 and 10,758,000 shares of QSR and SU, respectively. Also, both stocks are among Buffett's inspired choices because of good growth potentials.

Restaurant Brands' Burger King, Tim Hortons, and Popeyes have enjoyed strong growths in recent years. But the process of growing organically and opening new stores for long-term growth is still ongoing.

The company is a top franchisor and lessor. Nearly all of its fast-food stores are franchises. Also, the 5,300 restaurant properties have leases with the franchises. Hence, the company has multiple revenue stream and high-margin income regardless of restaurant performance.

Aside from the 29.2% capital gain analysts are projecting in the next 12 months, there is the potential growth of the 3.17% dividend the stock pays today. Over the last five years, dividend growth was quite strong. The increase was due to the higher payout ratio.

What matters to Buffett is not the yield today, but what the income stream would be years from now. With earnings growth expected to be 19.1% annually over the next five years, you can expect dividends to grow by 10% to 12% yearly moving forward.

Suncor is Buffett's solid choice in the tough energy sector. He sees this $69.25 billion oil and gas integrated company generating significant free cash flow ($1 billion annually) without the commodity growing.

The company's advantage lies in the diversity of its refining assets, even when the WTI price differential is widening. Because of this, Suncor is a cash-flow machine with the ability to decrease costs, pay down debts, and sustain dividends.

Buffett believes that Suncor is undervalued given its oil sands assets, four world-class refineries, and about 715 gas stations. All of these assets insulate the company from sharp drops in crude prices. It makes money despite the low prices.

The current dividend yield is a respectable 3.78%. Analysts are looking at a potential 28.7% price appreciation within a one year. Thus, dividend investors and value investors alike have Suncor as a core holding.

High-income stream

Buffett admits that it's hard to predict how far stocks will fall in shorter periods. However, you can ignore the price swings if you own value stocks. Restaurant Brands and Suncor have yet to reach its full growth potential. Both stocks should deliver high-income stream in the future.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:QSR (Restaurant Brands International Inc.)
4. TSX:SU (Suncor Energy Inc.)

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