



What Would Warren Buffett Buy and Sell on the TSX Index?

Description

Whether you are new or a seasoned investor, the one name almost everyone is familiar with is Warren Buffett. The Oracle of Omaha is arguably one of the best value investors of all time. It is therefore not surprising that investors track Buffett's portfolio — **Berkshire Hathaway**.

Berkshire's moves are closely tracked, as investors try to get inside one of the most brilliant minds in the history of the markets. Recently, a pattern has emerged — Buffett is getting more defensive with his portfolio.

In Berkshire's most recent SEC filing, it appears that Buffett is buying shares in companies that will do well regardless of economic condition and selling shares in companies that are prone to downwards pressure in the event of a recession.

In the quarter, he started a new stake in retailer **Kroger** and pharmaceutical company **Biogen**. Both grocery retailers and pharmaceuticals have a history of outperforming in times of uncertainty.

On the flip side, Berkshire lightened its position in **Apple**, which has been touching all-time highs. In an economic downturn, Apple would most likely see demand for its products decline. It is important to note that it was a small sell (1.5% of its position), and Berkshire is still Apple's second-largest shareholder.

Finally, Berkshire has been reducing its stakes in banks. It cut stakes in **Goldman Sachs** and **Wells Fargo** by 35% and 15%, respectively. **Bank of New York Mellon** and **Bank of America** were also reduced, albeit marginally.

These portfolio reductions are telling. As the economy worsens, central banks tend to cut rates to help spur growth. Unfortunately, this has a negative effect on banks' lending margins and leads to lower profits.

With this in mind, how should Canadian investors mimic Buffett's approach? A shift towards a more [defensive portfolio](#) could involve lightening your position in some high-flying tech stocks, such as **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)).

Shopify has been one of Canada's most prolific stocks and once again is off to a blistering start. Year to date, the company's stock price is up by 39.19% and is one of the best-performing stocks on the

TSX Index.

Although I don't recommend selling your position entirely, you may want to consider taking some profits off the table. Shopify is trading at an all-time-high price-to-sales (P/S) ratio of 38.81, which is more than double where it was trading at only a year ago.

Shopify stock is known to suffer from significant price swings. If the markets turn bearish, this high-flying tech stock will be one of the first to see negative price action.

What should you buy with those profits? Why not consider an undervalued grocer like Buffett did. One attractive company that fits the bill is **George Weston** ([TSX:WN](#)). The company recently broke out of a downtrend and has gained 7.89% thus far in 2020. This is a sign that the shift towards defensive stocks has already begun.

George Weston is holding company that has three main banners under operations:

- Weston Foods: A leading North American bakery
- **Loblaw**: Canada's leading grocery and drug retailer
- **Choice Properties REIT**: George Weston has a majority ownership (62.9%) in Choice, which has a portfolio of retail, industrial, residential and office properties

George Weston is trading at a cheap 14 times forward earnings, and all seven analysts that cover the company rate it a "buy." They have a one-year price target of \$131.75 per share, which implies an attractive 18.5% upside from today's share price of \$111.5 per share.

Foolish takeaway

Although one should never follow blindly, the signs of an impending recession have been mounting. It started with an inverted yield curve last August, and rates south of the border have already been dropping.

In 2020, the global economy has been [significantly impacted](#) by the Coronavirus. Here in Canada, recent rail blockades are yet another headwind expected to hurt GDP.

Even though no one can accurately predict with 100% certainty the timing of the next recession, one should always be prepared and protect their portfolio against significant downside.

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TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)
3. TSX:WN (George Weston Limited)

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Date

2025/06/30

Date Created

2020/02/22

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