Invest Like Buffett to Profit From a Stock Market Crash

Description

Warren Buffett has become synonymous with investing success. Ranked as one of the greatest investors of all-time, billionaire Buffett's market moves are closely watched by investors. In a recent surprise move, his investment vehicle **Berkshire Hathaway** sold is holdings in the four major U.S. airlines generating around $6 billion in cash, giving Buffett a war chest approaching a whopping $140 billion and indicating that he's preparing for another buying spree.

Buffett preparing for another market correction

Based on the Oracle of Omaha's contrarian value-driven approach to investing, it appears that Buffett is preparing for another stock market crash. Buffett's approach to investing is best encapsulated in his famous statement: "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

That perfectly underscores that fact that the Oracle of Omaha views stock market crashes to be ideal buying opportunities. They allow investors to acquire quality companies with solid fundamentals, robust businesses and strong growth at attractive valuations.

There is a growing view that the stock market will crash again and fall below its March 2020 low.

Buffett focused on financial stocks

Major U.S. banks like **JPMorgan** and **Bank of America** take up half of the slots in his top 10 holdings by value. In fact, financial services companies compose seven out of his top 10 investments. Bank of America is the second largest single holding worth somewhere around US$20 billion, while **American Express**, worth US$12 billion, is the fourth largest.

The reasons for this are simple: major banks and payment services companies form an integral part of the modern economy. They are the gatekeepers for access to credit and provide the all-important means of processing financial transactions. Without them, the modern economy would not function.

That became apparent when the near collapse of the financial system in 2008 brought credit markets to a screeching halt and nearly caused the economy to fail. As a result, modern governments have rated them as financial institutions that are too big to fail, which makes them almost impervious to economic slumps and recessions.

This bank meets Buffett's criteria

One top financial stock that fits Buffett's criteria is **Royal Bank of Canada** (TSX:RY)(NYSE:RY). Canada's largest lender has lost around 18% since the start of 2020, leaving it attractively valued and making now the time to buy.

Unlike its Big Five peers, Royal Bank has not pushed to build a massive offshore presence. Rather, Royal Bank has targeted key industries like insurance and wealth management which offer the best opportunities to grow long-term earnings.

Royal Bank now generates 62% of its revenue from Canada, another 23% from the U.S., and 15% from international sources. It has also reduced its dependence on traditional banking activities, which at the end of the fiscal first quarter 2020 earned 49% of Royal Bank's revenue.

Capital markets were responsible for 22% of first-quarter revenue, 20% came from wealth management, 6% was generated by insurance and the remaining 3% came from treasury services.

The bank's increasingly diversified sources of revenue will reduce the impact of the looming deep economic downturn triggered by the coronavirus.

Royal Bank was the first Canadian financial institution added to the Financial Stability Board's list of global systemically important banks, which essentially means that's it's too big to fail and forms a key part of Canada's financial system.

Royal Bank is well capitalized, as is evidenced by its common equity tier one capital ratio of 12%. It also has a high-quality loan portfolio with a gross impaired loans ratio of 0.45%.

Coupled with 34% of Royal Bank's Canadian residential mortgages being insured and a loan-to-valuation ratio of 53% indicates that it would take a financial catastrophe of monumental proportions to irreparably damage its financial position.

Foolish takeaway

Royal Bank is trading at around 1.5 times its book value, indicating that it is attractively valued. When combined with its diverse business, quality loan portfolio and focus on driving increased profitability, Royal Bank will deliver considerable value.

While waiting for the economy to improve, you will be rewarded by its dividend yielding 5%.

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