What Warren Buffett’s Recent Stock Sales Say About TSX Banks

Description

Deciding whether to buy **TSX** bank stocks is not an easy decision for investors. The stocks were sold off rapidly in March, creating an excellent buying opportunity at the time.

However, since then, the stocks have rallied considerably. And as the coronavirus situation continues to evolve, the potential impact on banks is a continuously changing environment.

Warren Buffett sold several bank stocks in the first quarter, as the coronavirus pandemic was rapidly escalating.

There is no telling why exactly Buffett sold off a significant portion of his bank stocks. However, it’s notable given that Buffett was one of the first investors to buy bank stocks in the last recession to help bring confidence back to markets.

Although the market has rebounded significantly over the last two months, we are still in the middle of the pandemic. And with all the unknowns that remain, avoiding bank stocks seems like a prudent decision.

TSX bank stocks’ exposure

Canadian banks have always been renowned around the world as being some of the safest investments. This is what makes TSX bank stocks such excellent long-term investments.

With the being said, COVID-19 a considerable risk for several reasons. First and foremost, despite being a few months into the pandemic, there is still more that we don’t know than what we do.

This is crucial because we don’t yet know the extent of the impacts on each industry. We also don’t know how badly this will hit the Canadian consumer.

Consumer debt loads are already at record levels in Canada, which has been a significant risk for TSX bank stocks in the last few years.

Now, however, with the potential for a prolonged recession and high unemployment, the banks are facing considerable headwinds.

So, with these risks in mind, TSX bank stocks are exposed. However, given that the Canadian banking industry is so robust, it's unlikely any of these companies will go belly up like we saw from U.S financial institutions in the 2008 financial crisis.

TSX bank stock to avoid

If you are concerned with the exposure, some of the TSX bank stocks have, the one stock to steer clear of is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

The stock has recovered some ground from the major market crash in March. However, it's still roughly 25% off its 52-week high and only 15% up from its lows.

This could make the stock look like a great bargain. However, investors are avoiding it for a reason.

TD has considerable credit card and auto loan exposure. Of its peers, the company has the highest amount of auto loans in dollars and as a percentage of its total loan book.

All in all, more than 15% of its loan book has exposure to credit cards and auto loans.

These are likely to be two of the highest impacted credit segments, given how exposed consumers are, especially in Canada.

Furthermore, with an extremely strong period of auto sales in the last few years, it's likely the preowned market could see a significant impact, which would naturally lead to higher write-offs.

This could be a severe tailwind going forward. So, until there is more certainty in markets, investors should keep in mind that TD is one of the most exposed TSX bank stocks.

Bottom line

TSX banks stocks are almost always a great investment. However, in the current environment with so much uncertainty, if you are worried about the banking industry's exposure, the one bank I'd definitely avoid is TD.

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