



Warren Buffett Bets \$800 Million on Bank Stocks: Should You Follow Suit?

Description

2020 hasn't been Warren Buffett's year. After selling his entire position in airline stocks during the COVID-19 market crash, the "Oracle of Omaha" became a net seller for the first time in his career. Buffett had upped his position in **Delta Airlines** before abruptly changing course, so at least a portion of his airline portfolio was sold at a loss. This, among other things, triggered a \$50 billion net loss for **Berkshire Hathaway** in the first quarter.

Since then, Warren Buffett has laid low. Working from home, he has been uncharacteristically quiet. On July 23, however, we got a small taste of what he's been up to. On that day, the *Financial Times* reported that Buffett had invested an additional \$800 million into **Bank of America** ([NYSE:BAC](#)) stock. The buy brought his position in BAC to 11.3% of the company. When an individual or corporation owns that large a position in a bank, it comes with increased regulatory oversight. That Buffett would double down on BAC despite the headaches that come with owning that much of it is a major vote of confidence in the company.

The question is, why does Buffett think this stock is so promising as to warrant a \$800 million buy?

Why Buffett is bullish on banks

Buffett has gone on the record as saying that banks will not be the main casualties of the COVID-19 recession. Citing their strong capitalization, he's said that they are not significantly at risk. If we look at recent earnings from the big banks, there may be reasons to think that's true. All of the big banks are posting huge declines in net income, but that's mostly due to rising PCLs. PCLs are reserves set aside in anticipation of loan losses. If the losses don't materialize, then PCLs can be reversed.

This has to be kept in mind when we look at BAC's first quarter. In the quarter, the company did post a [scary looking 48% decline in pre-tax income](#). However, that was mostly due to a big jump in PCLs, which increased by \$4 billion over the prior quarter, or \$3.8 billion over the same quarter a year before. If you take that out of the equation, BAC fared much better, with an 8% increase in revenue and a 6% increase in deposits.

A Canadian bank similar to Buffett's bank stocks

If you think that Buffett's BAC play was wise but want to keep your money in Canadian stocks, you're in luck. That's because there's one Canadian bank that resembles BAC in many ways: **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

TD Bank is the most American of Canadian banks. It has a [massive U.S. banking presence](#) and typically earns about 30% of its profits from south of the border. That gives TD significant exposure to the same financial market that BAC operates in. Believe it or not, that may be a good thing. The U.S. economy typically experiences more GDP growth than Canada's does, and the U.S. currently has a lower consumer debt-to-GDP ratio than Canada. These factors make U.S. banks promising investments in 2020. And TD is one Canadian bank that's poised to get a piece of the action.

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3. TSX:TD (The Toronto-Dominion Bank)

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