



Warren Buffett's \$800 Million Bet: A Massive Buy Signal for Canada's Banks?

Description

Warren Buffett may have sat on his hands in the first quarter, but he still sees value in this market despite the **S&P 500** being just a stone throw away from its all-time high. The Oracle of Omaha made a nearly US\$10 billion bet on natural gas assets a few weeks ago. More recently, he dished out more than US\$800 million to beef up his stake in the battered **Bank of America**.

There's no question that both the U.S. and Canadian banks are facing an unprecedented amount of pressure amid this coronavirus crisis. While macro headwinds may persist for at least another year, with rising provisions and falling loan growth, Buffett's latest move indicates that there's massive value in the sector despite all the now widely-known negatives.

Value in the banks

If you want to be a value investor like Warren Buffett, you need to go against the grain and scoop up shares of out-of-favour companies that nobody wants to own. While bank stocks are notorious for being tougher to value, given all their moving parts, there could be massive rewards for those willing to put in the homework.

Today, many U.S. and Canadian bank stocks have barely budged higher as the broader markets went on to recover a majority of the ground lost from the February-March sell-off. Dividend yields are swollen, and valuations are close to the lowest they've been since the last crisis.

Despite clear signs that the banking scene is undervalued, many Canadians have opted to pay a higher price of admission for the more certain plays that are "working" amid this crisis.

There's no telling how much longer the pandemic will drag on. Still, if you're a long-term investor who's looking to invest for the next 10, 20, or 30 years, your investment decisions today should be less about when the pandemic will end, and more about finding stocks of well-capitalized companies that will survive to see better days.

Follow Warren Buffett into the banks?

Warren Buffett's banking bet amid the pandemic is a sign that the banks, as a whole, are not the value traps that some bears view them to be.

Today, Canadian banks like **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), are in far better shape than they were before the lead-up to the Great Financial Crisis. While BMO's capital ratio has fallen under pressure, investors need to remember that the behemoth financial was stress-tested to the max and that it's well equipped to continue rolling with the punches for the duration of this pandemic.

BMO may have more than its fair share of some of the harder-hit areas of the economy like oil and gas (O&G), but such negatives are likely already more than baked into the stock given the magnitude of the coronavirus-driven decline. Under normal conditions, well-built bank stocks like BMO have no business trading at a discount to book value.

Today, loan losses are rampant, and there are few things to get excited about. Because of this, BMO stock trades at a mere 0.95 times book alongside an above-average 5.72% dividend yield. From a longer-term perspective, BMO, as well as most bank stocks, appears to be at a low point that's likely to be unsustainable for a prolonged duration.

Foolish takeaway on banks and Warren Buffett's latest move

Historically speaking, crises and recessions are typically the best time to buy bank stocks, as they allow you a shot at "locking-in" a larger dividend yield alongside potentially outsized capital gains in a reversal on the back of the next bull market.

Other than their valuation metrics, there are few things to be excited about when it comes to the banks these days. But if you're a long-term investor like Warren Buffett, I'm sure you'd agree that there's a good chance that today's banks may prove themselves to be undervalued despite the hailstorm environment.

For now, BMO and its peers will be volatile and scary to own. If you dare to stash and forget such bank stocks in your [TFSA](#), I have a feeling you'll be quite happy with your results over the next decade, as you thank yourself for following Warren Buffett and not the herd of [Robinhood traders](#)!

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Date

2025/08/03

Date Created

2020/07/29

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