Warren Buffett: A Market Crash Is Imminent

Description

Warren Buffett has been unusually quiet in 2020. In July, I'd discussed whether investors should expect a market crash going by his value investing principles. Today, I want to revisit that supposition and look at a market that has continued to experience ballooning valuations into August.

Warren Buffett: One model that shows stocks are overpriced

The Buffett indicator takes the combined market capitalizations of publicly traded stocks worldwide and divides it by global gross domestic product. It has been popularized as the favoured indicator of Warren Buffett. If the indicator reads more than 100%, this suggests that the global stock market is overvalued relative to the world economy.

This indicator climbed to a 30-month high in August. The investing community has been on edge when it comes to high valuations since the beginning of the summer. There are concerns about the diversion between a red-hot market and a still-struggling domestic and global economy.

Investors should never rely on one single indicator to drive their perceptions. However, investors on the hunt for value do have their work cut out for them right now.

I want to take a page out of Warren Buffett's value investing model. Below are three stocks that still look undervalued in this market.

Three stocks that follow the Buffett model in 2020

In early March, I'd suggested that investors should emulate Warren Buffett when picking stocks in a turbulent stretch.

Warren Buffett recently made a big acquisition in the energy sector with his $9.7 purchase of **Dominion Energy**. **Imperial Oil** (TSX:IMO)(NYSE:IMO) is the second-largest integrated oil company in Canada. Its shares have dropped 31% in 2020 as of close on August 12. In Q2 2020, the company reported a net loss of $526 million primarily due to lower Upstream realizations and Downstream margins.

Imperial Oil stock last had a very favourable price-to-book value of 0.7. It maintained its quarterly dividend of $0.22 per share, representing a 3.8% yield. This energy stock is still undervalued and fits within the Warren Buffett value investing framework right now.

In recent weeks, Warren Buffett has added considerable to his position in **Bank of America**. Canadian bank stocks are still in solid value territory ahead of their third quarter earnings reports. **Scotiabank** is my favourite target of the Big Six right now.

Shares of Scotiabank have dropped 16% in 2020 so far. Investors can expect to see its third-quarter 2020 results later this month. Scotiabank stock last possessed a P/E ratio of 9.6 and a P/B value of 1.1, putting the stock in very attractive value territory at the time of this writing.

Moreover, Scotiabank offers a quarterly dividend of $0.90 per share, representing a strong 6.1% yield. This top bank stock is undervalued and boasts tasty income. In this case, you can emulate Warren Buffett and stack shares of Scotia before the summer ends.

Warren Buffett: Target undervalued sectors

Historically, Warren Buffett has been apt to bet on industries that are struggling due to temporary circumstances. Recently, he pulled back on his bet on airlines. However, restaurants are on track for a rebound in the second half of 2020. Fast food brands, like those operated by **Restaurant Brands International**, have been at an advantage in this crisis.

RBI stock has dropped 11% in 2020 as of close on August 12. Shares are down 24% from the prior year. In Q2 2020, RBI announced that it had reopened nearly all its restaurants. Its shares last had a favourable P/E ratio of 25. RBI offers a quarterly dividend of $0.52 per share, representing a 3.8% yield.

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aocallaghan