Warren Buffett: Should You Buy Bank Stocks Right Now?

Description

The **S&P/TSX Composite Index** shed 230 points to close out the week ending September 4, 2020. High stock valuations and a shaky economy have kept investors anxious in the late summer. Back in August, I'd discussed how Canadians could emulate Warren Buffett and come out of a market crash in good shape. Today, I want to see how the investing legend has behaved over the past few weeks. Should investors follow suit?

What is Warren Buffett buying and selling right now?

This summer, the investing world was given a shock after Warren Buffett's company **Berkshire Hathaway** added over $500 million in **Barrick Gold** stock. Historically, Buffett has been bearish on the yellow metal. Buffett's company made a much bigger bet on a top U.S. bank this summer.

Over 12 consecutive trading days, Warren Buffett purchased $2.1 billion in **Bank of America** (BoA) stock. This boosted Berkshire Hathaway's stake in BoA to nearly 12% as of early August. Shares of BoA climbed 3.47% on September 4. The stock has increased 6.8% over the past month.

Above all, Buffett is a proponent of value investing. While he has bet on BoA, he has also shed stake in top banks like **JPMorgan** and **Goldman Sachs**. Instead of zeroing in on banks, Canadian investors should be on the hunt for banks that still offer great value.

Two bank stocks that fit the Buffett mould

Canadian bank stocks are still clawing back from the losses they sustained during the March market crash. Leaders at Canada's top financial institutions have warned of the risks that are still present in these uncertain times. Canada's banks are profit machines that offer reliability for investors. Economic turbulence may weigh on these institutions in the near term, but Canada's banks possess excellent balance sheets that can carry them through tough times.

Below are two stocks that fall within the value framework that Warren Buffett has preached in the past.

These securities are undervalued based on their high intrinsic value.

Scotiabank (TSX:BNS)(NYSE:BNS) is the third-largest financial institution in Canada. Its shares have dropped 20% in 2020. The stock is down 2.5% over the past week. Scotiabank failed to gain the momentum it enjoyed following the release of its Q2 2020 earnings.

This Canadian bank has a large footprint in Latin America, which has been hit hard by the COVID-19 pandemic. Since its experience with the outbreak has come later than many countries in the northern hemisphere, this has had a delayed and harsh economic impact. However, in the long term, Scotiabank is well positioned to benefit from the growth and development in these nations.

Shares of Scotiabank last had a price-to-earnings (P/E) ratio of 9.7. This puts Scotiabank in attractive value territory. Moreover, it offers a quarterly dividend of $0.90 per share, representing a 6.5% yield. Scotiabank is a top undervalued stock to scoop up that matches with Warren Buffett's value investing mantra.

Bank of Montreal is another top bank stock to focus on. BMO stock has increased 11% over the past month. Still, its shares possess a favourable P/E ratio of 11. Moreover, it last paid out a quarterly dividend of $1.06 per share. This represents a strong 5.2% yield.

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