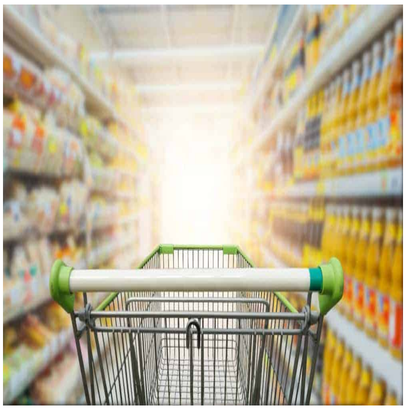

Warren Buffett: It's Time to Buy Grocery Stocks

Description

When Warren Buffett speaks, you should be all ears. When the man acts, you should analyze his moves from a top-down perspective, as he may be leaving hints as to where the best industry opportunities may lie at a given instance. While most investors have been shocked and awed over Warren Buffett's recent stance reversal on gold, after decades of avoiding the "unproductive" shiny metal, his bet on low-cost grocer **Kroger**, I believe, has lacked the same amount of limelight.

We all know that Warren Buffett has been playing it cautiously this year amid profound pandemic uncertainties. The risk/reward tradeoff may not be the best in the world, given the very real COVID-19 risks that lie ahead. And that's likely a major reason why Warren Buffett has been bullish on the unsexy grocers, which are among the best recession- and pandemic-resilient defensive plays out there.

Warren Buffett is bullish on grocery stores?

While the grocery stocks may not have the greatest rewards potential here, they can help keep your portfolio grounded if another COVID market crash were to hit. If your portfolio is light on defensives, I'd say it's a wise idea to take Warren Buffett's implicit piece of advice by buying Kroger or one of its Canadian peers, such as **Metro** (TSX:MRU).

This piece will have a closer look at Metro, a Montreal-based grocer that you may not have heard of if you're living on the west coast. Shares of Metro are currently sitting close to their all-time highs, but the real main attraction to the name at a time like this, I believe, is its -0.13 beta, which essentially means the firm has a slightly negative correlation to the broader markets.

Grocers can help you stay rich amid surging volatility

In the face of a second-wave crash, MRU is one of the names that can help you stay rich as the rest of the market looks to crumble like a paper bag. As an essential business, Metro will keep its doors open in the next lockdown. In the latest quarter, the firm posted solid margins that helped the firm offset pandemic-related expenses like personal protective equipment. Metro outclassed its peers in the space when it came to operating margins, which jumped from 5.4% to 6.9% in the latest quarter.

As you may know, margins are razor thin in the grocery scene. Metro's incredible margins are a testament to the firm's incredible management team, which knows how to raise the bar, even amid a crisis that's brought forth profound disruption to the economic landscape. While Metro shares have grown quite frothy in recent months (MRU stock trades at 20.5 times trailing earnings and 13.2 times cash flows), I think the name is still worth owning if you've neglected the defensive portion of your portfolio or have yet to mitigate COVID-19 risks.

Foolish takeaway

Warren Buffett may have been "late" to de-risk, but better to be late to the party than to not show up at all, especially given this "new normal" could last for another year. If you've already got a balanced portfolio with defensives in place, I'd urge you to wait for a pullback in shares of Metro before initiating a position.

Metro is one of the best Canadian grocery stocks on the **TSX Index**, but valuations, I believe, already reflect such.

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joefrenette