Warren Buffett: Avoid Bank Stocks?

Description

Legendary investor Warren Buffett has been a beacon for investors worldwide for several decades. Throughout his prolific career as a stock market investor, Buffett has made billions in wealth and inspired many to take on the career.

He reached the $1 million mark around the age of 30 and became a billionaire by 54. He has lived through recessions and managed to carve out substantial success through those tumultuous times.

Known as the Oracle of Omaha, he isn't some magician who tries to time the market or make predictions. However, his ability to remain fearless in approaching investments has made him a force to be reckoned with. In light of recent developments, Buffett's investment decisions could be vital for investors to make their decisions.

Today I will discuss the latest situation with Buffett and what he is doing to help you make your decisions.

Investing in big pharma

With the advent of a possible vaccine on the way, it comes as no surprise that Buffett's **Berkshire Hathaway** is betting big on big pharma. The industry is already quite prolific. However, the development of a successful vaccine for COVID-19 can send it soaring through the stratosphere.

Berkshire recently disclosed new investments in **Pfizer Inc.** and **Merck & Co.** during Q3 2020. These are two of the most significant names in big pharma, and Buffett is buying up shares in health stocks. Buffett's decision to invest in big pharma came several months before Pfizer's disclosure of their vaccine that sent the stock soaring.

Buffett's investments give him greater exposure to pharmaceutical companies as officials prepare to ramp up COVID-19 vaccine production and distribution once a viable vaccine gets approval.

Cutting ties with banks

Buffett has remained uncharacteristically cautious and quiet during the pandemic. He accumulated a record cash pile with Berkshire several months before the global health crisis sent stock markets on a nosedive. Everybody expected him to splash the cash hoard during the February and March decline.

Contrary to expectations, Buffett chose to invest in Japan and into natural gas assets. He also bought back many of Berkshire's shares and dumped his airline stocks. On the Canadian front, Buffett exited his position in the restaurant giant **Restaurant Brands International**. One of his most unexpected moves was reducing his stake in financials.

Buffett began trimming shares in **Wells Fargo**, **JPMorgan**, **M&T Bank Corp.** and **PNC Financial Services Group Inc.**

A Canadian bank to consider

Buffett's decision to reduce his shares in financial companies might suggest that you should follow suit. However, Canadian investors with shares in a stock like the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) might not need to make the same decision. RBC is the largest bank in Canada and one of the top-five global wealth management institutions in terms of its assets.

The stock has a long-standing track record of providing its shareholders with safe dividends through recessions in the past. The stock has stuck to providing its shareholders with payouts regularly throughout 2020. The bank has been paying its shareholders their dividends each year since 1870.

The pandemic had its effects on RBC, and its price tanked to $69.73 per share on March 23, 2020. However, the stock has made a recovery since then. RBC is trading for $107.71 per share at writing. It is paying its shareholders at a juicy 4.71% dividend yield at its current valuation. With an almost 50% recovery, RBC is trading for higher than its price at the beginning of the year.

Foolish takeaway

Buffett may have had his reasons for cutting ties with financials back home. However, a stock like RBC makes an ideal investment for Canadian investors with a long-term horizon. I think that it could be worth your while investing in the banking stock so you can bank on its long-term returns and reliable dividends.

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