Warren Buffett Is Selling Bank Stocks: Should You, Too?

Description

Warren Buffett loves banks. He says that you should invest in what you understand, and if you see the historical evolution of **Berkshire Hathaway's** investment portfolio, it's clear that Buffett understands financial institutions. This is also in line with his belief in the U.S. economy's strength, since banks are a key part of it.

Another investment rule that Buffett preaches and practices is that you shouldn't let market movements concern you. If you've invested in good businesses, you should stick with them until they stay good businesses. This ensures long-term success and prevents you from making hasty decisions based on market sentiment.

These are just some of the reasons why Buffett's **JP Morgan** exit seems so confusing to many.

Buffett and banking stocks

Berkshire Hathaway had about 60 million shares in the banking giant JP Morgan, up until last year. The stake was worth US$8 billion at its peak. But as of last quarter, the company holds fewer than one million shares in the bank, and the portfolio is now worth less than US$95 million — a fraction of its former valuation.

But his relationship with the banking sector as a whole is not as strained, as Berkshire Hathaway boosted its position in the **Bank of America** by US$2 billion. Another confusing part is Buffett's and his firm's relationship with JP Morgan. Two Berkshire Hathaway managers sit on the board of JP Morgan, and Buffett has always admired Jamie Damion, who has been the CEO for over a decade.

Some people are praising that move, since it shows that Buffett doesn't let his personal preferences and relationships cloud his investment judgment. But the exit is still perplexing, as JP Morgan's recovery has been better than Bank of America's, and the past five-year growth of both banks has virtually been the same.

Buffett and Canadian banks

Though Buffett hasn't added the Big Five to his deck yet, if it's stability he is after, one of the Big Five might be a much better bet than an American Bank. Unlike JP Morgan, which took about six years to recover its valuation in the great recession fully, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) recovered its share price in fewer than three years.

Canada's banking sector has always been more stable than its neighbor's. But TD is more than just about static stability. It's a Dividend Aristocrat and has increased its dividends consecutively for nine consecutive years, and its dividend-growth rate is also quite substantial compared to others in the Big Five. Right now, it's offering a juicy yield of 4.5%.

Its 10-year CAGR (dividend adjusted) of 10.5% might be enough to help you grow a nest egg of about $200,000 in 30 years if the bank can sustain its growth pace.

Foolish takeaway

Buffett has made many unusual decisions this year. He bought gold, invested in an IPO for the first time in decades, and invested heavily in foreign economies. His decision to exit his JP Morgan position is not too unusual compared to that. But his exit is still from a U.S. bank, and there is no reason to emulate that move if you've invested in one of the Big Six banks.

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Date
2025/07/07
Date Created
2020/12/09
Author
adamothman