Warren Buffett: A Warning for 2021

Description

Last week, I'd discussed one of Warren Buffett's favourite market indicators. The Buffett Indicator, which takes the combined market capitalizations of publicly traded stocks and divides it by a nation's gross domestic product (GDP), has soared to dangerously high levels in late 2020. There is optimism due to the vaccine rollout, but developed nations are still entangled in a pandemic that is spurring more restrictions and lockdowns. This will inevitably take an economic toll.

Today, I want to discuss how investors can follow in Warren Buffett's footsteps as we look ahead to the New Year. Let's dive in.

Warren Buffett: Seek value in the months ahead

Warren Buffett is one of the foremost proponents of the value investing strategy. This strategy involves picking equities that are trading for less than their intrinsic worth. When executed properly, this can be an extremely lucrative path forward. The Oracle of Omaha certainly swears by it.

Value investing is especially challenging in an overheated market. If we go by the Buffett Indicator, that is exactly what investors are facing right now. Before we look at some candidates, let's see what Warren Buffett is buying and selling in late 2020.

What stocks is Buffett buying and selling right now?

In the summer, Warren Buffett raised eyebrows when **Berkshire Hathaway** added a $500 million stake in **Barrick Gold**. However, Buffett's affair with gold would be almost as short-lived as his bet on airliners earlier this year. Berkshire released its Q3 2020 results in early November. It revealed that it shed over 40% of its stake in Barrick Gold. Moreover, the yellow metal has lost considerable momentum since its incredible run in the spring and early summer.

While the Sage of Omaha is shedding gold, he has been on the lookout for healthcare-focused equities. Its recent financial report also showed that Berkshire had added to its stake in **Pfizer** and **Merck**

. This is just in time for what will be the largest global vaccine rollout in history.

How can Canadians emulate Warren Buffett right now?

The TSX is short on vaccine-linked equities, but there are still solid options in the healthcare space. Moreover, Canadians should not hesitate to target more conventional stocks if they fit within Warren Buffett's value investing mould.

Extendicare (TSX:EXE) provides care and services for seniors in Canada. The COVID-19 pandemic has illustrated the need for major investment in long-term-care facilities in the private and public sphere. Shares of Extendicare have climbed 15% month over month as of close on December 14. The stock is still down 14% for the year.

Shares of Extendicare last possessed a favourable price-to-earnings ratio (P/E) of 13. Better yet, this healthcare stock offers a monthly dividend of $0.04 per share. That represents a 7% yield.

Warren Buffett has not been that high on bank stocks in recent months. However, he has shown a propensity to move on these stocks when there is value.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is the second-largest bank in Canada. It released its fourth-quarter and full-year 2020 results on December 3. TD Bank stock has climbed 10% month over month. However, it still boasts solid value and nice income.

In Q4 2020, TD Bank delivered improved adjusted diluted earnings per share of $1.60. Its wholesale profit tripled in the quarter, while provisions for loan losses dropped dramatically. This powered a strong quarter to close out what has been a challenging year for TD Bank and its peers. Shares of TD Bank last had an attractive P/E ratio of 11 and a price-to-book value of 1.4. It offers a quarterly dividend of $0.79 per share, representing a solid 4.4% yield. This is a bank stock Warren Buffett could get behind.

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