Warren Buffett: How to Pick the Right Stocks for Your Portfolio

Description

Warren Buffett is someone investors like to emulate for two reasons. First of all, his track record speaks for itself. Buffett is one of the best investors ever due to the incredible returns he achieved and the even more impressive consistency he did it with.

However, there's another important reason why he's so popular among retail investors. His advice is well thought-out, and the strategies he recommends are extremely straightforward.

One of the ways that Buffett likes to get his point across is to use analogies to help explain investing concepts. This helps to simplify the investing process making it easier to grasp the concepts.

When explaining to investors in the past about how to choose the right stocks for your portfolio, there is a common baseball analogy he likes to use.

Warren Buffett: stick to your circle of competence

Essentially what he says is that picture you are at bat in a baseball game. Each stock that you come across and consider investing in is like a pitch coming your way.

Several of those stocks you won't want to buy at all. These are balls, and you shouldn't swing at those.

Then there are the quality stocks; these are strikes. While most people would think to swing at all strikes, Warren Buffett has an even clever way to maximize your investments.

In baseball, you only get three strikes, and you're out. However, in investing, you can take as many strikes as you want before you swing at the ball.

Every batter has a specific comfort zone, somewhere where they would like to have the ball pitched to them right in their sweet spot.

Warren Buffett recommends investors wait until the pitch is right in the sweet spot. In other words, not

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every high-quality stock is going to make sense for your portfolio.

Some businesses you may not understand or some may not fit your investing strategy. It's much better to wait for the best stocks that fit your comfort zone or circle of competence, as Buffett calls it.

This way, you are much likelier to hit home runs rather than just singles and doubles.

A top TSX stock for any portfolio

One stock that every investor can understand is **Pizza Pizza Royalty Corp** (TSX:PZA). The company receives a royalty from all the Pizza Pizza and Pizza 73 locations in its royalty pool across Canada.

What's important is that the royalty is a topline royalty, meaning it comes from revenue rather than income.

This is important for investors because it means that the level of sales in the entire royalty pool is the most important determinant of income for the company. The company has minimal expenses, so the majority of royalty income that flows in from each location is what ends up being paid out to shareholders.

This makes it relatively easy to see trends in how the stock is progressing and whether or not you can expect an increase in income. That's why it's a stock that all investors can consider, since it's relatively easy to understand, one of the first prerequisites Warren Buffett has for investing in a stock.

Currently, despite Pizza Pizza being a lot more resilient than its peers in the pandemic, the company is still recovering. And as that materializes, you can expect the company to increase its dividend again.

Today that dividend yields roughly 6.9%. So it might not be a bad stock to add to your portfolio, especially if you're looking to add income.

Bottom line

Pizza Pizza may not be for everyone, especially if you have more of a growth-weighted strategy rather than income.

However, the takeaway is that to maximize your investing success, Warren Buffett only recommends you buy stocks you can easily understand.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PZA (Pizza Pizza Royalty Corp.)

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