



## Warren Buffett Just Sold Major Bank Stocks: What Should You Do?

### Description

The legendary investor Warren Buffett's investment firm **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) just revealed its latest investment moves. According to the company's latest 13F SEC [filings](#), Buffett is cutting his banking sector holdings heavily. While the firm completely sold its stakes in three banks in the fourth quarter, it trimmed its shareholdings in the other two major banks.

Let's take a closer look at his latest move and discuss if it is time for bank investors to follow Buffett and exit or cut their bank sector stakes.

### Warren Buffett sold bank stocks

In the December 2020 quarter, Berkshire Hathaway sold all its stakes in banks like **JPMorgan Chase**, **M&T Bank Corporation**, and **PNC Financial Services**. At the end of the previous quarter, the company had slightly over 967 thousand shares of JPMorgan, 2.9 million shares of M&T Bank, and 1.9 million shares of PNC Financial Services.

At the same time, the Buffett-led company also trimmed its **Wells Fargo** and **U.S. Bancorp** positions in the last quarter. The investment firm owned only around 52.4 million shares of Wells Fargo at the end of Q4 — down 59% from the 127.4 million shares it owned at the end of Q3.

### Why Buffett's moves shouldn't shock you

Buffett has been very optimistic about large American banks such as JPMorgan, U.S. Bancorp, and Wells Fargo for years. So, what changed his mind recently? Well, you'll probably find your answers if you'd look at how the COVID-19 woes have [affected the banking sector](#).

For example, large banks in Canada, including **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), saw a sharp decline in their income from retail banking segments last year. While a temporary rise in

their capital market and wealth management segments supported their overall business, these banks reported a sharp drop in their core banking segment earnings amid the pandemic.

In the fourth quarter of fiscal 2021, RBC — the largest Canadian bank — reported 21% lower earnings from the personal and commercial banking segment. TD Bank also registered a sharp 27% drop in its net income from the U.S. retail banking segment. TD's Canadian retail banking operations' earnings rose slightly by 3% in the last quarter, though.

Similarly, Bank of Nova Scotia registered a 19% drop in its overall adjusted net profits in the last quarter. A 13% drop in its Canadian banking profits and a massive 61% decline in its earnings from international banking were the key reasons for its overall poor performance.

## Uncertainties about the recovery

Despite all these negative factors, nearly all major American and Canadian banks have reported better-than-expected earnings in the last couple of quarters. But the uncertainties about their near-term recovery remain intact. In the post-COVID world, banks might have to face challenges due to more risk of defaults in consumer finances and decline in the commercial real estate market.

Buffett seemingly doesn't want to remain exposed to these expected challenges. That's why I find his move to trim his banking sector stakes wise. But dividend investors may continue to hold bank stocks for the long term, as the short-term challenges might not affect bank stocks' long-term growth potential, I believe.

## Final thoughts

While Buffett sold many bank stocks in the last quarter, he's continuously trying to find opportunities to benefit from the ongoing rally in the stock market. That's why you may also want to add some undervalued high-growth stocks to your investment portfolio now that could give you extraordinary returns in the long term.

### CATEGORY

1. Bank Stocks
2. Investing
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2. NYSE:BRK.B (Berkshire Hathaway Inc.)
3. NYSE:BRKA (Berkshire Hathaway Inc.)
4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TD (The Toronto-Dominion Bank)
6. TSX:BNS (Bank Of Nova Scotia)
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