Follow Warren Buffett to Higher Yields With Undervalued Dividend Stocks

Description

There's never been a better time to be a passive-income investor; just ask Warren Buffett. While the stock market has mostly recovered from the 2020 coronavirus market crash, many industries haven't participated in the relief rally to the full extent. Sure, your average stock on the TSX Index has recovery; many have even surpassed their pre-pandemic highs. That said, many stocks are still feeling the pressure in the (hopefully) late stages of this pandemic.

Coincidentally, many such industries tend to command higher dividend (or distribution) yields, even under normalized market conditions. We're talking the REITs (real estate investment trusts), utilities, telecoms, and energy producers, the latter of which saw large investments from the great Warren Buffett in the fourth quarter.

Warren Buffett bets big on +5% yielders

It's not a mystery as to why the Oracle of Omaha placed such sizeable bets in the telecom and energy scenes with his fourth-quarter investments in **Verizon** and **Chevron**, respectively. Both stocks have been under a considerable amount of pressure amid the pandemic, with yields that now skew heavily towards the higher end of the historical range.

Warren Buffett had once said that the act of "reaching for yield" is "stupid, but very human" and that he "gets" why a passive-income investor would want to do it. While blindly reaching for yield is reckless, I think that this market environment provides a unique opportunity to get more (safe) yield for less. You could say that Buffett reached for yield with his latest bets in Verizon and Chevron, but he's not reaching too far such that his odds of being on the receiving end of a dividend cut are increased.

Both Verizon and Chevron have the cash flows to support their payouts, and they're far more likely to hike their dividends at a rampant rate moving forward.

Verizon and Chevron are classic Warren Buffett bets

While COVID-19 headwinds facing each firm may or may not subside over the coming months (it'll be a fight between the vaccine rollout and variants of concern in 2021), both firms have the balance sheets to weather further waves and potential catalysts that could propel their share prices on the other side of this pandemic.

I've been a huge fan of both telecom and big oil as sources of cheap, bountiful, and sustainable high-yielding dividends. The telecoms have been under pressure amid intermittent lockdowns in response to COVID-19 waves, which curbed the appetite for mobile data. Let's take a closer look at Warren Buffett's Chevron investment and why I think it's a wise idea to imitate the man by putting your contrarian hat on with one of the least-loved industries in this market.

Big oil will be gushing with cash for many years to come

Energy has been under pressure for years after oil prices fell off a cliff in 2014. The pandemic only acted as salt in the wounds of an industry that's fallen into secular decline. While both industries are unloved right now, both reek of value, and I'd be willing to bet that many players within each are severely undervalued at this critical market crossroads.

For fossil fuel firms like Chevron and past Warren Buffett play **Suncor Energy**, relief in the form of higher WTI (West Texas Intermediate) prices are already here. As oil demand looks to recover further, I think there will be no ignoring the gushing operating cash flows to be had from such firms. Sure, old-school energy is being phased out in favour of renewables, but the process isn't going to happen overnight. It's a process that'll take decades. And in the meantime, there's still ample value for long-term investors to be had in the space, even though it's in the latter innings in the grander scheme of things.

Remember, a stock of a firm in an industry that's in secular decline can still be a better investment than one that's in a secular uptrend. It all comes down to the price you'll pay and real cash flows you'll stand to receive over time.

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joefrenette