Warren Buffett: Forget Bonds! Stocks Are a Better Choice

Description

Veteran investors regard bonds as relatively safe investment instruments. Governments and companies issue bonds to raise capital. It's a form of borrowing from the public where there's a promise to repay the principal by a certain date. Bond issuers pay interest at regular intervals, and therefore, investors have fixed income.

Return-wise, however, this asset class doesn't necessarily provide the highest. But investing in the bond market is not risk-free. When the market rate rises from the purchase date, the bond's price falls accordingly. There's an inverse relationship between interest rates and bond prices.

Billionaire investor Warren Buffett said, "Bonds are not the place to be these days in the current environment." The GOAT of investing cites the 94% drop of the 10-year U.S. Treasury bond's 15.8% yield in September 1981 to 0.93% in year-end 2020.

Avoid fixed-income investments in 2021

Buffett has long maintained the position that if interest rates stay low, stocks will almost certainly beat bonds over time. His message to **Berkshire Hathaway's** shareholders in his most recent letter is to avoid fixed-income investments. He opines that investors will lose money in many government bonds today.

According to Buffett, the negative bond yields in Europe aren't a good sign. In Canada, the 10-year government bond yield is 1.419% as of March 4, 2021. Meanwhile, U.S. Treasury yields climbed last week. The 10-year Treasury note rose to 1.47%, while the 30-year Treasury bond yield increased to 2.271%.

Better investment choice

Buffett's conglomerate realized mind-blowing returns from its stock portfolio through the years. The Oracle of Omaha keeps a long-term focus. He invests in the stock market not to make quick bucks but to build wealth. Buffett believes stock investing is the best way to amass a fortune over the long run.

While Berkshire Hathaway isn't a dividend payer, Buffett's company earns billions of dollars from dividends. Dividend stocks contributed to his financial success. He invests in companies with clear competitive advantages and time-tested business models. Analysts estimate Berkshire's dividend income in 2021 to be around US$3.8 billion.

Unmatched track record

The TSX is your marketplace for dividend stocks. Many publicly listed companies pay dividends, and yields could range from modest to super high. If you were to rely on dividends for financial sustenance, it's worth looking into a company's dividend track record. A lengthy history indicates reliability and time-tested, as Buffett says.

Bank of Montreal (TSX:BMO)(NYSE:BMO) holds the longest payout record. Canada's fourth-largest bank has been paying dividends since 1829. It's the dividend pioneer, so the record is unmatched. BMO has kept its dividend payments steady amid cyclical markets, including deep recessions.

During the 2020 March market selloff, BMO share's price sunk to as low as $36.73. Some investors would have sold their holdings out of panic. However, those who kept the bank stock didn't regret their decision. BMO's year-end price was $75.21, or nearly 105% higher than its COVID low.

BMO share trades at $84.42 (+12.8% year to date) today and pays a decent 3.96% dividend. A $100,000 investment will produce $330 in quarterly dividends. The income could be for life, given BMO's 191-year dividend track record.

More productive asset

For Warren Buffett, stocks are the more productive assets than bonds in 2021. Expect him to deploy cash and purchase more equities when there are buying opportunities.

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3. Investing

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Date
2025/08/14
Date Created
2021/03/09
Author
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