



## How Warren Buffett Buys Marked-Down Stocks

### Description

Warren Buffett once said, “Whether we’re talking about socks or stocks, I like buying quality merchandise when it is marked down.” While Warren Buffett is incredibly wealthy, he is known also for being incredibly frugal.

He has lived in the same house in Omaha, Nebraska since he bought it in 1958 for US \$31,500. Likewise, he drives around in a modest vehicle and often eats breakfast at one of his favourite joints, **McDonalds**.

### Warren Buffett built his wealth by being frugal

Yet, thinking and breathing value has been one of the keys to his success. Warren Buffett always felt that the cost of spending on something frivolous could cost him the opportunity of compounding that amount (through investing) in the future. In fact, opportunity costs have played heavily into his investing formula across his entire career.

In a way, it is a good reminder to every hopeful, burgeoning investor. Before you buy something frivolous or spontaneous, ask yourself “What could this amount be worth if I invested it?”

At a 10% rate of return, it would only take you seven years to double it. At a higher rate, like 15%, it could take less than five years. This is just something to keep in mind, especially if you want to build wealth like Warren Buffett.

### Warren Buffett also likes cheap stocks, as long as they are “wonderful”

When it comes to investing, Warren Buffett also likes quality stocks in the bargain bin. Often these are companies with good fundamentals, strong balance sheets, and competitive moats. However, somehow the market just doesn’t seem interested in their business or fell out of love for one short-term

reason or another.

Warren Buffet would equally warn that just because a stock is cheap, doesn't mean it is good. As he has also said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

## A wonderful stock at a wonderful price

If I was looking for a wonderful company selling at a wonderful price, **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) would certainly be on my list. While Enbridge is not officially a dividend aristocrat, it is only one year away from hitting that admirable mark. This Canadian [value stock](#) presents a great total return profile.

Frankly, trading with a yield of 7.22%, Enbridge is still a relative bargain. Especially considering it still trades \$10 per share below its pre-pandemic highs.

Of course, there are some risks. One is that its new and largest pipeline project, Line 3, gets further stalled by legal delays. Another risk is that Michigan's governor forces [the Line 5 pipeline](#) that crosses the Great Lakes to cease operation. While these risks can be mitigated, they are present and they could be disruptive to a portion of Enbridge's operations.

## A solid, moat-like business

For the most part, Enbridge is a really solid business. Its cash flows are 98% contracted or regulated. As a result, it has very resilient operational and financial platform. It has a dominant, moat-like position (the type Warren Buffett loves).

25% of crude in North America is transported by this company. New pipelines are nearly impossible to build, so Enbridge's current assets are essential and valuable to its counter parties.

Likewise, Enbridge is using excess free capital to invest in renewables and alternative energy opportunities like hydrogen. It continues to diversify its operations to engage with the energy transition. While that happens, this stock should benefit strongly from an uptick in oil volumes as the world recovers from the COVID-19 pandemic.

## The bottom line

If you want to be like Warren Buffett, save your pennies and buy stocks like this. They are wonderful when they are cheap and wonderful when they pay for themselves.

### CATEGORY

1. Dividend Stocks
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### TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
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