



Warren Buffett Advice: Buying the Best Stocks for Your Portfolio

Description

Warren Buffett is one of the most popular investors in the world, and deservedly so. Buffett gives great advice on a whole host of topics when it comes to investing, whether it's recommending that most investors buy [index funds](#), offering great advice on how to find [value stocks](#), or what to look for in [growth stocks](#). He's even offered plenty of advice on how investors can [avoid mistakes](#).

Warren Buffett isn't just an investor who has managed to earn incredible returns over his investing tenure. He is also one of the wisest individuals with some of the best pieces of advice.

Whether it's advice that was taught to him through his mentors or lessons he's learned along the way, any advice [Buffett](#) offers can be a big help.

One piece of advice, though, that I think doesn't get enough credit is his recommendation that you only invest in what you know.

Warren Buffett: Invest in what you know

Investing in what you know is important. It doesn't mean that you should only invest in industries that you may understand today.

However, if you're looking at buying a certain stock and can't understand what it does or how it makes money, you should probably avoid that investment.

That doesn't always mean that stock is not worth an investment for others who may understand its business.

But if an investor can't quickly understand how the business makes money and other important factors of its operations, how could that investor possibly put a value on the business and know it's worth an investment?

This should be quite obvious whenever you research a stock. If you have a hard time understanding

what's going on with the business, it may be best to avoid the stock for now, at least until you get a better understanding of its operations.

There are some companies, such as tech stocks, that will always be inherently harder to understand. And Warren Buffett is not afraid to avoid a stock when he doesn't understand a company.

Some industries are much more straightforward, though, like telecom stocks or utilities. All that matters is whether or not you can understand the business and if you have any interest in investing in it.

One Canadian stock with straightforward operations

One of the best Canadian stocks that should be understandable for any investor is **Pizza Pizza Royalty** ([TSX:PZA](#)).

Pizza Pizza Royalty is exactly what its name suggests: a royalty company. The company collects a royalty on all sales from its more than 700 restaurant locations across Canada.

This includes stores under the Pizza Pizza banner as well as Pizza 73 in western Canada.

Receiving royalties on sales instead of royalties on net income or owning the restaurants outright is a much more straightforward strategy.

This is ideal, especially if you're considering Warren Buffett's advice to buy what you know. Not only is the strategy more straightforward and easier to understand, but it's also easier to monitor Pizza Pizza's performance from a shareholder's perspective.

In general, sales across its hundreds of stores tend to stay consistent over time, often growing or decreasing by only a few 10ths of a percent each quarter.

This is important, because it allows the Canadian stock to collect all these royalty payments. It then just pays the small amount of administrative fees it has and returns what's left after tax to shareholders.

Bottom line

So, if you buy Pizza Pizza Royalty, you gain exposure to sales at every single restaurant across Canada.

Today, the dividend yields an impressive 6.25%, and as it continues to recover from the coronavirus pandemic, that dividend could be increased over time.

In addition to an attractive dividend, the Canadian stock also offers recovery potential as well. Pizza Pizza may not be a stock for everyone, but it's a simple business that almost every investor can understand.

And, as Warren Buffett recommends, an easy-to-understand business is a prerequisite for any well-thought-out investment.

CATEGORY

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