



Canadians: 3 Warren Buffett Tips for Buying Undervalued Stocks

Description

Over the years, value investing has evolved considerably. Today, with individuals having much more access to information instantly, often when Canadian stocks trade undervalued, they do so for a reason. Even well-known investors like Warren Buffett have adopted more of a growth approach. With that being said, though, [value investing](#) principles continue to shape his approach to buying businesses to this day.

Buffett learned to invest originally from Benjamin Graham, known as the father of value investing. And while he has taken influences from many individuals, Graham continues to be the largest influence on Buffett's investment strategy.

So if you're looking for Canadian stocks to buy undervalued, here are three crucial tips to consider that Warren Buffett has taught us over the years.

Consider why the Canadian stock is trading undervalued

Sometimes when stocks trade cheap, it could be an opportunity for investors. However, it could be that way for a reason. It's paramount to avoid value traps, so this is the first and one of the most important tips to remember.

One of Warren Buffett's quotes on investing, "Time is the friend of the wonderful business, the enemy of the mediocre," demonstrates this perfectly.

If it's an excellent company, then it's worth an investment, and you should have no problem owning it for years. However, if the company is only mediocre, or worse, it will likely just continue to lose value over time, and the investment will probably never work out.

Consider **Air Canada** ([TSX:AC](#)) stock over the last year and a half. While the company isn't a poor business regularly, it's been a terrible investment over the last 12 months.

Because of the pandemic, its revenues are being impacted massively, and the company continues to

lose value each quarter, ultimately lowering its fair value. The longer investors hold Air Canada and its operations don't improve, the more value they will inevitably lose. This is why Buffett calls time the enemy of the mediocre company. Luckily for investors, this is all temporary with Air Canada.

In many cases, though, if you buy a stock that's struggling because it looks cheap, it could only continue to lose money. So whenever you identify a Canadian stock you think is trading undervalued, the first step is to figure out why it's so cheap and whether the company is high-enough quality to make it worth a long-term investment.

Warren Buffett looks at the stock's long-term history

If you want to figure out how wonderful a company is, one of the best ways to do this is by looking at its track record and history of performance in the industry. Furthermore, because Warren Buffett is investing for the long run, he wants to look at long-run averages.

Here's another of his [best quotes](#), "Do not take yearly results too seriously. Instead, focus on four or five-year averages."

Looking at the results of just one year or a few quarters can be deceiving. The stock could have had a few good quarters lately, making you overpay for it when they were just outliers. Conversely, it could have suffered a one-time issue that makes its financials look poor when it's really it's an excellent business.

By looking at longer-term averages, you open up more potential to find stocks that are diamonds in the rough as well. If the rest of the market is paying attention to these short-term results, they too could miss the big picture, creating an excellent opportunity for investors using Warren Buffett's approach.

Remember that you are buying a business

[Buffett](#) advises this all the time. And while it may be easier for him because, in many cases, he can buy the whole company, it's still a necessary approach to take — and one he's taken from the beginning.

Warren Buffett's quote, "Buy into a company because you want to own it, not because you want the stock to go up," is crucial to remember.

You can't control what the market will value the company at — and that shouldn't matter. If it's a great business, you should want and plan to own the company for years.

So next time you're considering an investment in undervalued Canadian stocks, these are three crucial tips to remember.

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