3 Momentum Stocks That Are Still Cheap

Description

The idea of buying a stock just because its price has increased in the past seems ludicrous. But so-called momentum investing has consistently been shown to outperform, as detailed in a new report released this month. In other words, stocks that have been going up in the past are more likely to keep going up than stocks that have lagged.

There is a problem with momentum investing, and that is the risk of paying too much. So with that in mind, below are three stocks that have done well recently, but are still cheap.

1. Canadian Natural Resources

There's no better place to start than with one of Canada's largest energy producers, **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ). The past year has been very good for most energy companies, but CNRL has performed especially well, with its shares returning 41% over the past 12 months.

Still, the shares only trade at about the value of the company's existing reserves (discounted at 10% after tax). For a company with CNRL's track record, that is a nice bargain. The oil price assumptions used in valuing the company's reserves are very conservative. If CNRL continues to execute as it has done in the past, then it will vindicate momentum investors.

2. Bank of Nova Scotia

The past year has also been very good to Canadian banks. **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS) is no exception; its shares have returned nearly 20% over the past year. But this return still hasn't been as high as its peers, largely due to the bank's emerging markets exposure.

Today, the bank trades at less than 13 times earnings, despite having tremendous growth opportunities in emerging markets, particularly Latin America. Of all the Canadian banks, Bank of Nova Scotia's shares are probably the best deal right now — even though you won't be getting as much momentum as you would with one of the other bank stocks.

3. Manulife Financial

If you had bought shares in life insurer **Manulife Financial** (TSX: MFC)(NYSE: MFC) a little less than two years ago, you would be laughing; the shares have doubled since then. But there's still a strong argument that the shares are cheap.

First of all, the company trades at barely 10 times forward earnings. Secondly, Manulife should benefit in the longer term when interest rates return to normal levels. Most of the company's investment assets are held in fixed income securities — this means the company must accept minimal yield on its investments for now.

Manulife also has plenty of opportunities to expand internationally. The company is even entering the Myanmar region again. If Manulife is successful in these efforts, then momentum investors stand to record a healthy profit.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:CNQ (Canadian Natural Resources)
3. NYSE:MFC (Manulife Financial Corporation)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:CNQ (Canadian Natural Resources Limited)
6. TSX:MFC (Manulife Financial Corporation)

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