



4 Reasons Why I Remain Bullish on Stocks

Description

The escalating conflict in the Ukraine and a range of other geopolitical and macroeconomic events has once again generated considerable fear among traders, with claims global stock markets are overvalued and set for another rout.

Investors are becoming increasingly cautious, amplifying market volatility as they react to each new or growing crisis, and many are fleeing to cash and safe-haven assets such as gold. But while the short-term outlook remains volatile, I believe any minor corrections offer buying opportunities.

1. Economic growth remains strong while the outlook is improving

Despite disappointing results from Europe, with the French, German, and Italian economies contracting over the first half of the year, the U.S. economy continues to surge ahead, growing at a faster rate than expected. In the second quarter of 2014, U.S. GDP expanded 4.2%, or 30 basis points higher than the 3.9% originally expected. This is also the strongest quarterly growth since the third quarter 2013 and it is expected maintain this momentum into 2015, with GDP forecast to expand by 3.4%.

Despite concerns over slowing industrial activity in China, with the August purchasing managers index down by 60 basis points compared to July to 51.1, industrial activity continues to grow with any score above 50 indicating growth. China's government has also flagged it will continue to implement a stimulus package, with a focus on growing industrial output, easing conditions in the property market, and boosting liquidity in the banking system. These measures should see China's economy pick up steam over time and have seen a surge of investment in China ETF funds, with investors betting heavily the stimulus package will succeed.

Furthermore, despite the doom and gloom associated with the Eurozone, including slowing economic growth and contracting industrial activity, the industrial PMI was still above 50 points, indicating industrial activity continues to grow. While the European Central bank continues to implement a stimulus program aimed at boosting economic growth through a combination of lower interest rates and boosting liquidity, boosting the prospects for economic growth in the Eurozone.

2. Low interest rate environment boosts growth prospects and consumption

Interest rates remain at historical lows in many economies, which is great news for stocks, because it reduces borrowing costs for consumers and businesses, boosting consumption and investment in business. It also drives lower costs, freeing up capital for investment in developing business assets and growing productive assets. This points to stronger consumption and increased business growth.

Low interest rates also reduce bond yield, making stocks appear far more attractive to investors, particularly those paying solid but sustainable dividend yields.

3. Business remains optimistic about the future

The majority of businesses remain optimistic about their growth prospects, as witnessed by the number of dividend hikes at the end of the second quarter 2014. Dividend hikes show businesses and management are optimistic future earnings will continue to grow. For the second quarter, the majority of Canada's top banks hiked their dividends yet again, the **Bank of Nova Scotia's** spiked 3% and **Royal Bank of Canada's** 6%.

Energy giant **Suncor** ([TSX: SU](#))([NYSE: SU](#)) hiked its dividend by a massive 22%, while Canada's largest life insurer **Manulife Financial Corp.** ([TSX: MFC](#))([NYSE: MFC](#)) surprisingly hiked its dividend for the first time in five years by a tasty 19%.

4. There are still bargains among Canadian stocks

Despite claims the market is overvalued, there are still a number of great names on the TSX for investors to put money into that appear attractively priced. Among the 20 lowest forward price-to-earnings ratios on the S&P/TSX Composite Index are Manulife with 11 and **National Bank of Canada** ([TSX: NA](#)) with 12.

But many of the better bargains can be found in one of my favorite sectors, the energy patch. Among them are Suncor, attractively priced with an enterprise value of 6 times EBITDA and a forward price-to-earnings-ratio of 11. Troubled intermediate oil producer **Lightstream Resources Ltd.** (TSX: LTS) looks particularly cheap with an EV of a mere 5 times EBITDA.

Even Colombia-based **Parex Resources Inc.** ([TSX: PXT](#)), which has seen its share price rocket skyward 105% for the year-to-date, appears attractively priced with an enterprise-value of 5 times EBITDA. Likewise Colombia's largest independent oil producer **Pacific Rubiales Energy Corp.** (TSX: PRE) also appears attractive with an EV of a mere 4 times EBITDA and a forward PE of 12.

Despite the naysayers and bears, there are plenty of signs indicating the TSX, like many global stock markets, will continue to perform strongly, with the outlook for global economic growth continuing to improve. When coupled with a number of Canadian-listed companies still appearing attractively priced across a number of sectors, I think now is the time for investors to take the plunge.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:FEC (Frontera Energy Corporation)
4. TSX:MFC (Manulife Financial Corporation)
5. TSX:NA (National Bank of Canada)
6. TSX:PXT (PAREX RESOURCES INC)
7. TSX:SU (Suncor Energy Inc.)

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