Worried About Stocks Crashing? Hide out in These 3 Value Stocks

Description

It seems like pundits everywhere have been saying that the markets are due for a correction.

I'm one of those pundits, for what it's worth. I see an expensive stock market that has been fueled by low rates, companies borrowing to buy back shares in record amounts, and a lack of attractive alternatives. Here in Canada there isn't really much to invest in besides the stock market.

But just because I think stocks are overvalued doesn't mean I'm taking my cash and sitting on the sidelines. On the contrary, I'm still actively looking at stocks to buy. But instead of buying the largest companies on the TSX, I'm looking at the far corners where the lesser-known companies hang out.

By looking away from the big guys, I stand a fighting chance to be able to protect my capital when the downturn happens. That's because these types of companies are already cheap, and they tend to be uncorrelated with the rest of the market.

Let's take a closer look at three that would look nice in just about every portfolio.

Fairfax Financial

It's virtually impossible for individual investors to put their money into the fancy derivatives that almost brought the entire financial system down in 2008. This is probably a good thing.

Fortunately for investors, there's a really easy way for them to get access to two huge derivative-driven bets that are looking more and more likely to pay off, and that's by buying shares in **Fairfax Financial Holdings Ltd.** (TSX:FFH). Prem Watsa, the man in charge of the insurance giant, has recently put a big chunk of his investing dollars to work betting on both deflation and a big decline in China's stock market.

If you doubt Watsa's ability to make these sorts of predictions, just look at his track record.
He called the bubble in U.S. real estate using derivatives to short the most toxic of mortgages. Profits from that trade were eventually in the billions, which lead to Fairfax's best year ever. Watsa also predicted the tech bubble would end badly, and successfully invested in Greece after it blew up.

Needless to say, he's a master when it comes to navigating uncertain times.

Cominar REIT

In times of uncertainty, investors will often flock to sectors we deem as being stable. And even in a tepid economy, there's still a need for retail space, offices, and industrial buildings. This, combined with a cheap valuation, makes **Cominar Real Estate Investment Trust** (TSX:CUF.UN) an interesting choice in turbulent times.

Thanks to a second-half acquisition, the company earned $1.66 per share in distributable cash in 2014. That puts the company at less than 11 times earnings, all while paying a dividend north of 8%. The dividend is sustainable too, with the payout ratio checking in at approximately 85%.

Investors are nervous about the company because of a pretty aggressive debt load, but it's manageable. Shares also trade at a 20% discount to book value, and the founding family is the company's largest shareholder.

Kinross Gold

Often when the price of stocks fall and uncertainty clouds the financial system, the price of gold does quite well.

But, at least in my opinion, it isn't enough for investors to just buy the shiny metal. Instead, if they want outsized returns, they should invest in an undervalued gold producer. Since producers are essentially a levered bet on the price of gold, they're set up to do quite well on just a 10% or 20% move in the underlying metal.

Kinross Gold Corporation (TSX:K)(NYSE:KGC) is one such producer. The company is currently very cheap, trading at just 70% of book value and at approximately 12 times 2014's free cash flow. And that's with gold at $1,200 per ounce. Imagine how well the company would be doing if the price of the metal was $1,400 per ounce?

Kinross is still dealing with a chilliness in Canadian-Russian relations, which is a big deal because approximately 25% of the company's production comes from Putin's backyard. But that issue will eventually pass, and likely without a major hit to Kinross' bottom line.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:KGC (Kinross Gold Corporation)
2. TSX:FFH (Fairfax Financial Holdings Limited)

3. TSX:K (Kinross Gold Corporation)

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