



How to Translate Mispriced Shares to Higher Income

Description

With the latest news easily accessible on the Internet and spread via social media, irrational behaviour in the market is heightened to another level, causing stocks to be temporarily mispriced. Common large-cap companies are especially subject to headline risk.

Banks

Bank of Nova Scotia ([TSX:BNS](#)) ([NYSE:BNS](#)) was pushed below \$52 per share in mid-January and yielded over 5.3% at the time. Similarly, **Canadian Western Bank** ([TSX:CWB](#)) was pushed below \$20 and yielded more than 4.6%.

The risks associated with the banks are very real and are playing out. Low interest rates and low commodity prices look like they're here to stay. The oil price is quoted every day. There's also the ever-growing concern of a housing bubble, particularly in cities with exceptionally high housing prices, including Vancouver and Toronto.

However, these banks' yields remain solid. The lower their share prices go, the higher their yields and the greater the margin of safety for their shares.

Although Bank of Nova Scotia just reported solid first-quarter results and rose 5.8%, the company has a margin of safety compared to its normal long-term multiple of 12.4. At \$58, it trades at a multiple of about 10. So, the bank is still discounted by about 19%. With its quarterly dividend increased to \$0.72 per share, its annual payout is now \$2.88 per share, and it still yields 5% even after the pop. Its payout ratio remains sustainable at 50%.

Even at \$20.50, Canadian Western Bank still has a huge margin of safety. Its normal long-term multiple is 14.6, but its current multiple is 7.7. So, the bank is discounted by about 46%. With its quarterly dividend of \$0.23 per share, its annual payout is now \$0.92 per share, and it yields 4.5% with a payout ratio of about 35%. Canadian Western Bank is set to report first-quarter results on Thursday.

Utilities

Brookfield Renewable Energy Partners LP ([TSX:BEP.UN](#))([NYSE:BEP](#)) was also mispriced by the irrational market when it fell to the \$31-33 level. Similarly, **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) was mispriced when it fell below \$46.

Although I didn't buy at the exact bottoms, I bought more shares on these dips. Their shares bounced rather quickly by about 11%, indicating the shares were mispriced.

I didn't buy them on the dips for the quick price gains; I bought for the higher yields. After their distribution hikes, both companies still offer above-average yields of 5.8-6.3% based on a foreign exchange of US\$1 to CAD\$1.30.

Conclusion

Investors should maintain a watch list of companies for long-term investments. The list can contain the names and tickers of quality companies, a short paragraph describing why you like the companies, the price ranges you think they're good buys at, and/or the yield ranges you like. Periodically update the list, so you can take advantage of temporarily mispriced shares for higher yields.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
3. NYSE:BNS (The Bank of Nova Scotia)
4. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
5. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
6. TSX:BNS (Bank Of Nova Scotia)
7. TSX:CWB (Canadian Western Bank)

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