



Worried About a Bubble? Protect Yourself With These 3 Cheap Value Stocks

Description

After both the Dow Jones Industrial Average and S&P 500 hit new all-time highs last week, a small chorus of naysayers chimed in with the same thoughts they do every time the market hits a new high.

These folks contend the market is in a bubble. They point to things like high valuations, low dividend yields, and general tepid economic numbers as evidence of their claims. Geopolitical threats like the recent Brexit or the coup in Turkey don't help inspire confidence either.

I've always found it to be silly to try and predict bubbles or market tops. If the best minds in the business can't predict these things with any sort of accuracy, what chance do the rest of us have? Besides, taking money out of the market comes with very real opportunity costs.

I prefer a compromise solution. Rather than leaving the market entirely, investors should cycle from expensive stocks to cheaper options. Here are three cheap stocks that look attractive today.

Empire

It's pretty obvious the market is no fan of **Empire Company Limited** ([TSX:EMP.A](#)) and its acquisition of Safeway's Canadian stores back in 2014.

Alberta's economy is reeling, and Safeway is hardly immune. Shoppers are abandoning high-end chains like Safeway in these tough economic times, preferring to shop at cheaper stores like **Wal-Mart**. Sobeys stores are also feeling this pinch, although not nearly as bad as Safeway.

Still, there are plenty of reasons to like Canada's second-largest grocer. Once you strip out the big non-cash write-offs associated with the Safeway acquisition, the company is nicely profitable, making \$1.49 per share in the last year. This puts shares at 13.7 times trailing earnings—a much cheaper valuation than its peers.

Empire's management realizes shares are undervalued too and recently authorized a buyback of up to 3% of its outstanding class A shares. This move plus the company's 2% yield shows that management cares about shareholders.

Transcontinental

Many investors are focused on the main business of **Transcontinental Inc.** ([TSX:TCL.A](#)), which is printing flyers, newspapers, and other such items for commercial clients. It's obvious the trend is towards a more digital world where these kinds of publications aren't so important.

But at the same time, they're ignoring just how profitable this business is. Over its last 12 months, the company has generated \$3.23 per share in free cash flow and \$2.38 per share in net earnings. With the share price currently under \$19 per share, this company is insanely cheap on an earnings perspective. Investors are being compensated quite well for investing in this so-called dying industry.

Transcontinental also pays investors a sweet dividend of 3.9%—a payout that has been raised every year since 2008.

Power Corporation

Power Corporation of Canada ([TSX:POW](#)) is a holding company with a large stake in **Power Financial**. Power Financial, in turn, owns large portions of **IGM Financial**, **Great-West Lifeco**, and a European holding company. Power Corporation also owns media, energy, and other financial assets. Altogether, these stakes are worth between 20% and 25% more than the company's \$28.15 share price.

Power Corporation isn't just cheap on an assets basis. These subsidiaries are all solidly profitable, generating \$3.18 per share in profits over the last 12 months, putting shares at just 8.9 times trailing earnings. Analysts expect earnings will increase come 2017 to \$3.35 per share.

Investors are getting a large share of those profits back as dividends with the company paying a quarterly payout of \$0.335 per share—good enough for a 4.8% yield.

Investors nervous about record highs in the stock market should find these companies to be decent investments. Paying less is a very effective way to combat a bubble. It's a simple, powerful strategy.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)
2. TSX:POW (Power Corporation of Canada)
3. TSX:TCL.A (Transcontinental Inc.)

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Date

2025/08/25

Date Created

2016/07/19

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