Forget This $60 Stock: Buy These 3 $20 Stocks Instead

Description

Google the words “stock diversification” and you’ll come up with 19,500 results. It’s one of the most hotly debated subjects in all of investing.

For every expert who believes you need to be invested in the entire market in order to properly diversify your portfolio, there’s another who thinks 10 stocks is plenty. Who’s right? That’s likely to be debated long after you and I have left the planet. There simply isn’t a right answer.

If you’re Warren Buffett, a concentrated portfolio has definitely proven to be a good thing, but for the rest of us, it’s probably wiser if we spread our bets around.

Take **TMX Group Limited** (TSX:X) for example.

It currently trades around $60. Purchasing 100 shares of its stock on August 16 required a cash outlay of approximately $6,084. For that investment, you would get a small ownership stake in Canada’s largest stock exchange. With a December 2016 earnings estimate of $3.34 per share, you would have paid about 18 times its projected bottom-line results for the year.

I personally wouldn’t buy TMX because it’s hardly what you’d call a growth stock; revenues over the last three years have been stuck between $750 and $800 million, while at the same time a multiple of 18 times earnings doesn’t exactly scream “buy.” That said, it wouldn’t be the worst investment in the world.

However, getting back to the idea of diversification, I’m proposing that you pass on this $60 stock and instead opt for three stocks each trading around $20. For the same outlay of cash, you get three stocks for the price of one.

The key here is to come up with three that will generate more than $3.34 in combined earnings in fiscal 2016. Pay less and get more. What’s not to like?

Transcontinental Inc. (TSX:TCL.A)

I recently called Canada's largest printer an income investor's dream stock partly because its dividend yield was over 4%–a valuable commodity in era of low interest rates. Still yielding more than 4%, analysts estimate its 2016 earnings per share will hit $2.28 per share–a multiple of just eight times earnings.

In comparison, TMX Group trades for 18 times earnings but yields only 2.6% as of August 16.

Intertape Polymer Group (TSX:ITP)

Whether you're looking for shrink wrap or shipping tape, Intertape is one of the biggest companies in North America to meet your needs. A great dividend stock currently yielding 3.5%, analysts expect fiscal 2016 earnings of $1.42 per share or 15 times estimates.

Again, you're able to get more yield at a lower multiple of earnings than you can with TMX Group. While Intertape isn't much of a grower either, its earnings in fiscal 2016 are expected to be higher than they've been in the past decade, providing greater assurances of an increasing dividend.

Corby Spirit and Wine Ltd. (TSX:CSW.A)

Fool contributor Joseph Solitro recommended the maker of Wiser's whiskey and Polar Ice vodka in early January. At the time it was yielding 4.3%. Since then it's gone on an 11% run, bringing the yield down by 60 basis points to 3.7%. Still, it's a very respectable yield for anyone concerned about income.

Majority owned by **Pernod-Ricard,** it too can't be considered a growth company. However, for the first nine months of fiscal 2016 ended March 30, Corby's earnings per share grew 24% year over year to $0.57. With no analyst estimates available, I'd expect its annual number (it'll announce it August 24) to come in around 83 cents, or about 25 times earnings.

Bottom line

On August 16 the three stocks mentioned above were trading a few cents shy of $60 on a combined basis, yielding 3.7%. When paying an average of approximately 13 times earnings for all three stocks, buying three at $20 appears better than one at $60.

CATEGORY

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2. TSX:TCL.A (Transcontinental Inc.)
3. TSX:X (TMX Group)

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