Is the Market on the Verge of a Collapse?

Description

Although many companies have seen their stock prices perform very well throughout the past year, there are still a number of high-quality names that have started to sell off. The market seems to be putting companies with above-average growth at more favourable valuations, and value companies are getting the short end of the stick. In fact, many companies that are growing at a rate similar to the overall economy are starting to become cheaply valued amid a potentially slowing economy.

As many investors are aware, a leading economic indicator to a stock market correction is a low unemployment rate, which is currently the case in Canada. Compounding that, consumers are now several months into paying higher interest rates on their variable debts and higher prices at the pump. With the potential for a cold and long winter to increase heating costs, Canadians may have very little disposable income left over to drive economic growth. With most on “Main Street” gainfully employed, those on Wall Street are looking forward, and the picture may not be that rosy.

Shares of **Air Canada** (TSX:AC)(TSX:AC.B), which have performed extremely well over the past year, are currently trading at a trailing price-to-earnings (P/E) multiple close to 3.5 times. Shares seem extremely cheap, yet the market is not rewarding the company with an appropriate valuation given the circumstances. Although this name may seem like an excellent prospect to short, given the history of the industry in addition to how detrimental higher oil prices could be to an airline, the truth is that it is extremely difficult to short a security that is trading so cheaply.

Should the economy go into a tailspin, investors will be better off by hiding in defensive names that pay regular dividends on either a monthly or quarterly basis. At a current price near $13.50 per share, **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) is offering investors a dividend yield close to 4.4%, as shares of the utility company have considerable room to move upwards in the event of another dividend increase.

For investors seeking even less risk, shares of **TransAlta Corporation** (TSX:TA)(NYSE:TAC), which offer a yield of approximately 2%, have paid out less than 15% of cash flow from operations during the most recent fiscal year. To boot, shares also trade at a 15% discount to tangible book value, which will serve as a backstop for investors during difficult times. As long as the company continues to generate positive cash flows, investors need not worry about the long-term outcome of this investment. It will be profitable.

For those who believe that consumers are truly addicted to their cell phones, shares of **Telus Corporation** (TSX:T)(NYSE:TU), nearing a 52-week high, continue to offer a dividend yield of more than 4%. The company offers cell phone service to consumers and businesses alike. In an era where consumers NEED their phones, shares of this telecommunications company can be seen as a defensive gem waiting to be scooped up.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:TAC (TransAlta Corporation)
3. NYSE:TU (TELUS)
4. TSX:AC (Air Canada)
5. TSX:AQN (Algonquin Power & Utilities Corp.)
6. TSX:T (TELUS)
7. TSX:TA (TransAlta Corporation)

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