Why Is the Market Falling?

Description

Some investors don’t like seeing the markets decline. However, it’s healthy for the markets to dip. And dips give opportunities for investors to buy at better valuations.

The Canadian stock market has declined roughly 7% from its recent high. However, certain stocks have fallen more than that. Investors must determine whether those dips make the stocks in question attractive enough to buy.

Fortis Inc. (TSX:FTS)(NYSE:FTS) is a dividend growth stock that investors love; conservative retirees hold it for its predictable dividend. The stock has declined about 12.5% from its recent high.

At ~$42.10 per share, the stock trades at a price-to-earnings multiple of roughly 16.6 and offers a yield of ~4%. Understandably, in a rising interest rate environment such as the one we’re in now, high-debt companies like utilities, of which Fortis is but one example, will be forced to grow more slowly because of the higher cost of operations from their debt. As a result, stocks with high debt levels will suffer more.

Bonds will also compete with stocks for capital as interest rates and bond yields rise. As investors typically view bonds as safer investments, some will sell stocks for bonds.

From **Altagas Ltd.'s** (TSX:ALA) recent high of $29 per share, the stock has declined about 8.4%. At about ~$26.50 per share, the stock trades at a price-to-operating-cash-flow multiple of roughly eight and offers a whopping yield of 8.2%.

Without rising interest rates, the stock was already weak due to the pending acquisition of **WGL Holdings**, which some investors feel Altagas is overpaying for. The company is still waiting for a couple of regulatory approvals and expects the transaction to close in the first half of this year.

On the other hand, bank stocks haven't fallen all that much, as they should benefit from higher interest rates.

Currently, the long-term bond yield sits at roughly 2.3%. As income vehicles, Fortis and Altagas still win. However, investors will need to be able to stomach the volatility the stocks bring. It's not that bond prices aren't volatile, but historically, bonds tend to be less volatile than stocks.

Investor takeaway

The stock market can decline for many reasons. Investors just need to ask themselves one thing before buying a stock: is it attractive enough? If a stock isn't attractive enough or isn't trading at a big enough safety margin, then investors should wait for a better price.

Once investors own shares, it gets easier. If you do the buying right (i.e., buying great companies at good valuations), then you should be able to profit in the future or even simply hold on to your stocks for long-term price appreciation (and income if they pay dividends).

CATEGORY

1. Dividend Stocks
2. Investing

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