2 Potential Bounce-Back Dividend Stocks That Could Become Market-Beating Winners by 2019

Description

If you've got the ability to keep your cool as your holdings fall by double-digit percentage points in the near term, then it often pays over the long haul to be a contrarian investor and invest in some of the most beaten-up stocks out there.

Oftentimes, taking the Oracle of Omaha's advice of being "greedy when others are fearful" is easier said than done. Many beginner investors may be bottom fishing, expecting a V-shaped rebound; however, such bounce-backs are anything but realistic! And if such rebounds don't happen in the near term, many investors throw in the towel prematurely, only to kick themselves later after a stock has bounced back, handsomely rewarding shareholders who'd bought the dip.

There are ways to mitigate risk if you're going to catch a falling knife, like dollar-cost averaging, but there is one way to make sure you don't end up realizing a major loss over a short period of time, and that's to only invest in the stocks of the businesses whose long-term thesis is still intact and whose recent downfall is overblown due to short-term issues that will not alter the long-term fundamentals.

It takes more than a poor quarter or a guidance downgrade to negatively impact a long-term thesis, so if you can spot such declines, and if the thought of even lower prices excites you, then it's time to put your cash to work with these beaten-up stocks that I think are among the best of the TSX's rebound candidates.

Without further ado, here are the stocks:

Enbridge Inc. (TSX:ENB)(NYSE:ENB)

Prior to 2015, Enbridge used to be a market darling, offering investors the best of both worlds: capital appreciation and a high-yield dividend that keeps growing.

Fast forward to today, and Enbridge is down ~37% from its spring 2015 high, and the dividend is a whopping 6.5%. And that dividend is completely safe, as management released its plan to continue to raise its annual dividend by a double-digit percentage amount. Not only is the dividend safe, but management is keeping its promise to income investors in spite of recent setbacks.

Sure, the company may not have “earned” the right to hike the dividend by 10% per year, and the company’s recently announced equity offering will cause dilution, and asset sales aren’t anything to write home about. But if you take a look at the long-term picture, there are many upcoming drivers (including the Line 3 renovation) to be cautiously optimistic about.

If you liked Enbridge with its 4.5% dividend, you should really love it now with the bonus 2% tacked on!

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR)

Shaw is another stock that’s been in the doghouse over the past year, falling ~18% from peak to trough along with the recent sell-off in the broader basket of telecom and utility stocks. Interest rates are going up, and Shaw is going to be spending cash hand over fist to further improve its wireless business, but the dividend is massive at 4.81%, and I think it’s the best Canadian telecom to own today.

Why?

The Big Three’s wireless subscriber base is up for grabs! It’s open season, and as Shaw continues to move forward with its disruptive plan (to capture 25% of the Canadian wireless market), it will be Shaw shareholders who will be huge winners at the expense of shareholders of the Big Three telecoms, all of which are about to feel what it’s like to have real competition. The cartel-like days of the Big Three are over, and I think their pain will be Shaw’s gain. Which side of the disruption do you want to be on?

As we head into the latter part of 2018, I think the general public will really see Shaw shake up the telecom market, as wireless subscriber growth could surge thanks to aggressive promos and Shaw’s commitment to improve its LTE network.

Furthermore, the previous quarter’s wireless growth numbers were solid; however, they were severely dampened by the Big Three’s “limited time” price-matching for 10-gig data plans. That only means the upward surge will be postponed, possibly sometime in 2018, with or without such “limited time” matching offers.

Bottom line

Both Enbridge and Shaw have a margin of safety at current prices. Those seeking a bounce-back would be wise to initiate a long-term position today.

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