Worried About a Bear Market? Buy This Undervalued “Bomb Shelter” Stock Right Now

Description

In difficult markets like these, oftentimes it pays to block out the noise if you’re prone to making rash decisions at times when the general public is in panic mode. Instead of deciding to sell now and ask questions later, a better strategy would be to focus on how the individual businesses behind the stocks are performing and whether or not their long-term fundamentals will be affected by broader trends in the market.

A crash is probable, but don’t panic!

Individual businesses are faring well in spite of excessive market-wide selling activity, so when it comes to making portfolio adjustments, make sure you don’t throw the baby out with the bathwater!

The sooner you start thinking of stocks as pieces of businesses (like Warren Buffett does) and not simply ticker symbols moving across your TV screen, the sooner you can develop a contrarian value investor’s mindset. This mindset will allow you to make money at a time when most stressed investors choose to cut their losses and sit on the sidelines, sometimes right before a sharp market rebound occurs.

So, unless you’re a fortune teller, timing the market doesn’t work, so don’t even think about making drastic changes after any significant market event. The February correction should have served as a dire warning if you’ve grown overly complacent by offloading the defensive portion of your portfolio to finance the purchase of cyclical names that have more near-term upside potential. But if you’ve kept your portfolio properly balanced, you’ve really got nothing to worry about as bear market fears continue to mount.

How not to mitigate risks of an impending bear market in stocks

Many investors have ditched stocks for cryptocurrencies like Bitcoin to “mitigate” the risk of a stock market crash, but ironically, such decisions will ultimately end up destroying much more wealth over the long haul, even if the markets were to shed +40% at some point over the next three years, as many pundits have forecasted. Bitcoin, as I'm sure you're aware, is a trap that has no real underlying value and could blow up in the faces of those who choose to invest in it. It's not a suitable defence against a market crash, even though it appears that systematic risks from each asset class are isolated.

A smarter strategy for long-term thinkers

Unless you're a retiree or near retirement, it really doesn't make sense to exit the stock market at this point in time. No other investment instrument can offer you a better bang for your buck over the long haul than stocks, even with crashes taken into consideration!

I believe it's a smarter idea to focus your attention on a particular basket of stocks, ones that have been ignored by a vast majority of investors. Think defensive dividend-paying stocks that are poised to fare well during times of market turmoil.

Fairfax Financial Holdings Ltd. (TSX:FFH) is one such stock that's incredibly diversified and is well insulated from a market downturn, even with CEO Prem Watsa's more bullish tone. The company doesn't have the same amount of hedges as it did prior to Donald Trump's presidential victory, but it is still well protected from a significant market downside.

Typically, Fairfax has missed out on gains realized from market rallies, but during market downturns, the stock has barely been scathed. In fact, if you look at the long-term chart, you really wouldn't be able to tell when the financial crisis happened, as you would with the charts of most other stocks! And unlike most other stocks, Fairfax realized gains as the markets tanked over +50%.

Not even Prem Watsa can time the markets all the time, but he does have a preservation of capital strategy, so investors should feel comfortable hanging on to the stock and collecting the ~2% yield if they're convinced that doomsday is around the corner.

Furthermore, the stock has gone nowhere in three years and is attractively valued with a 6.93 trailing P/E multiple, a 1.1 P/B multiple, a 0.8 P/S multiple, and a 4.8 P/CF multiple, all of which are lower than the company's five-year historical average multiples of 31.4, 1.3, 1.2, and 19.5, respectively.

Bottom line

As the markets head deeper into the red, don't think about selling your most prized stocks. Instead, trim your overrun holdings and ensure you own enough "boring," defensive, dividend-paying stocks to ride out the turmoil that's ahead. Look for value, and you'll have no problem responding to whatever the market throws at you!

Stay hungry. Stay Foolish.

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