2 Low P/E Stocks to Back Up the Truck on and 1 to Toss to the Curb

Description

Ask the average investor how they're feeling about the markets of late; odds are, you'll get a gloomy response.

Buying cheap stocks on the dip is a wonderful strategy that can make investors really rich when done properly, and it's worked over the past several years. Going forward, however, it'll become a lot harder to nibble away at dips if you're expecting "instant gratification" in the form of a sudden rebound in just a few weeks or days following your buy on the dip. Rising interest rates and soaring inflation are cause for concern, and the possibility of a full-blown global trade war are another.

While it may seem tempting to throw in the towel on stocks in general, most investors would find that fixed-income products are poised to face problems of their own.

The recent surge in market volatility should come as no surprise and for young investors with cash hoards; this is the perfect environment to be a stock picker. Bargains exist right now! And if you know where to look, you could lock in quality stocks at bargain prices with a margin of safety that's higher than you'd think there'd be in such a turbulent market.

If you don't know where to look, consider looking at stocks whose P/E multiples are the lowest they've been versus their historical averages, but be careful; value traps exist, and if you don't do your homework properly, you could introduce your portfolio to a dangerously high amount of risk.

Here are two low-P/E stocks that I'd be buy today:

National Bank of Canada (TSX:NA)

National Bank is a cheap bank stock that many investors tend to overlook. Sure, it's smaller and more regional than its bigger brothers in the Big Six, but that doesn't take away from the fact that the company is a dividend-growth king with an above-average ~4% yield.

The stock trades at a mere 10.9 times trailing earnings and is down over ~7% from all-time highs, presenting a very attractive entry point for those looking for a low-risk way to obtain above-average total returns over the long haul.

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE)

Cenovus is a severely battered company that can't seem to find any sort of relief. The stock is extremely cheap, and the long-term prospects are something to be cautiously optimistic about. The oil sands can become quite uneconomical if times of weak oil prices.

Going forward, Cenovus is at the forefront of efficiency-driving extraction technologies, including the steam-assisted solvent-aided extraction process. In the long term, I believe Cenovus is a diamond hidden in the rough. There's a possibility that the new, more efficient process will lead to improved business economics, allowing the company to better thrive in harsh environments.

Shares of Cenovus trade at 5.1 times trailing earnings with a price-to-book multiple of just 0.6. It's quite ridiculous how cheap shares are given its promising long-term prospects. The stock is not for the risk-averse though, as volatility is quite stomach churning, and those looking for near-term gains may be left scratching their heads.

And here's one "cheap" stock to avoid:

Magna International Inc. (TSX:MG)(NYSE:MGA)

Magna trades at 9.5 times trailing earnings, and the stock is not too far away from its all-time high. It appears to be a cheap stock that's starting to garner momentum, but before you load up on shares, thinking there's a margin of safety, you should understand the long-term headwinds that will make the stock a huge loser over the next decade and beyond, as autonomous vehicles (AVs) hit the roads.

Magna's partnership with Lyft may seem like a safe haven; however, I believe the move is accelerating a trend that'll lead to Magna's ultimate demise. Summonable AVs will eventually result in a sharp reduction in the number of overall vehicles on the road once the technology is readily available to the general public. Ride sharing is the future, and the reduction in overall car sales will hurt Magna in the grander scheme of things.

Furthermore, should Trump's steel and aluminum tariffs come to fruition, Magna and other foreign auto part makers could experience a catastrophic plunge. The stock is not cheap, and the headwinds are reason enough to take a pass on what appears to be an opportunity for value investors.

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