2 Stocks With Profound Market-Beating Upside

Description

With all global indices suffering massive declines amid the spike in volatility, it's clear that we've entered an individual stock picker's market. While index investing is a low-fee way to accumulate wealth over the long term, in markets like these, it's really not hard to beat the market (the TSX or S&P 500) with severely undervalued stocks that are hidden in plain sight.

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Sure, you still may be exposed to some of these bargain stocks with an index, but they'd be extremely diluted by heavier-cap names that may not offer investors the best value at a given point in time. Volatility and turmoil are on the horizon, opening windows of opportunity for long-term do-it-yourself investors.

A bear market may soon follow, and I don't know about you, but that has me excited, because I've got a large correction shopping list handy, and I'm sticking with it, even if market-wide sentiment becomes even worse.

Without further ado, here are two stocks that I believe have the potential to obliterate the market through 2019.

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

This one-time market darling, which delivered a high yield, dividend growth, and capital gains is in the doghouse and is now down over 40% from its 2015 high. Despite mounting pressures, management has stuck by their dividend-growth plan, which implies 10% in annual dividend hikes over the foreseeable future.

Given long-term catalysts that could propel shares higher down the road, I think it's just a matter of time before the stock returns to its market-beating ways. In the meantime, patient investors can collect the fat dividend, which yields ~7%, as they buy quarter positions on the way down.

At just 15.9 times forward earnings, the stock is ridiculously undervalued, and I think there's a high probability that shares could deliver above-average total returns for those over the next three years.

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX)

Valeant is another unloved stock that I believe deserves a second look from investors. The stock is still down over 94% from its all-time high, and it probably will never see these highs again, but at the $20 levels, I think there's a great deal of upside to be had for those looking for a high-risk/high-reward investment.

Shares are now off ~34% from 52-week highs, and while there's still a huge debt load to deal with, the company's return to organic growth is something to be cautiously optimistic about. Bausch & Lomb, Salix, and its dermatology business have the potential to deliver immense upside in the foreseeable future.

For now, though, investors are concerned about debt, rising competition that's hurting Valeant's generics business, and the stunted growth from the company's barrage of asset sales, which went to reducing the company's mountain of debt.

There's no question that CEO Joe Papa has a difficult road ahead of him; however, at just 0.9 times book, I think Valeant stands to be a compelling market beater over the next few years.

Bottom line

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Both Enbridge and Valeant shares are battered and offer a great deal of upside from these levels. Enbridge is the lower-risk play of the two for those seeking major gains over the next three years, whereas Valeant is a speculative bet that could easily double before the conclusion of 2019.

Valeant has a pipeline of potential blockbusters in Vyzulta and Siliq, but at this point, there's really no way to tell whether or not they'll offset a meaningful amount of lost growth from Valeant's recent divestitures.

At this point, I have no problem labeling Enbridge as a strong buy and Valeant as a speculative buy.

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