Where Investors Can Find Value Amid Rising Rates

Description

This past week, the Bank of Canada chose not to increase interest rates, instead opting for the “wait-and-see” approach, as the Canadian economy has become more vulnerable since the beginning of the year. Although the economy has never been better, and we have reached a period historically low unemployment, it does not necessarily translate to confidence for the future of asset prices.

As we know, housing is one of the Country’s biggest drivers of economic growth; given the combination of new housing regulations and already higher borrowing costs from one year ago, it is too risky to the overall health of the country to drastically slow down the one sector that acts as a driver for the rest.

In spite of a vulnerable housing market, investors still have opportunities to purchase a number of securities and make substantial profits. Over the past year, shares of many companies that are highly levered have sold off, as the expectation was that interest rates would rise, and the bottom line would shrink. Essentially, higher interest rates lead to higher expenses and lower profits. With so many articles written about companies such as **Enbridge** and Canada’s banks, investors need to start looking beyond the most obvious and best-known names.

To top the list, shares of **Pure Multi-Family REIT LP** (TSXV:RUF.UN), which currently trade at a price of slightly more than $9 per share, have the potential to either increase in value over time or be bought out by Electra America at a premium to the current share price. Although the buyout offer is at a price of $9.79 per share, company management has been clear that the offer undervalued the company. After seeing shares jump from $8 to $9.25 per share, the current dividend yield of 5.5% (paid on a monthly basis) remains a very attractive yield.

After this name, shares of **TransAlta Corporation** (TSX:TA)(NYSE:TAC) have started to find a bottom at a price just under $7 per share. The dividend yield is starting to approach 2.4%, as shares have declined over the past year. Given that the energy sector typically carries a substantial amount of debt, it is completely understandable that the market is valuing this company in a very cautious manner. The true value of the assets (which carry less debt than the industry average) are being valued at less than tangible book value, as the company has chosen to pay out only a small amount of the available free cash in the form of dividends.

Barring a major catalyst, the upside is viewed to be somewhat muted for this name. As always, however, when a company falls out of favour, it is oftentimes the very best opportunity to buy!

With many names having sold off in anticipation of major headwinds, investors have had the opportunity to hit the reset button and start over once again. Between now and the end of the year, those who brave the headwinds and buy today may have a lot to boast about.

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