Where Investors Can Still Find an Undervalued Security As We Head Into a Recession

Description

As we're well into another market cycle, investors need to be extremely cautious about where they invest. As many are aware, there are leading indicators, coincidental indicators, and of course lagging indicators that can provide a very good indication as to which phase of the economic cycle we are really in. While the lagging indicators may be nice to have for confirmation purposes, investors really need to focus on the leading indicators in order to best position themselves for any major upswing or downward move in the financial markets.

Given that the last recession is now almost a decade behind us, it is highly probable that the next recession is much closer than we think. As one of the best leading economic indicators is the level of unemployment – a low level of unemployment is a leading indicator that we are going into a recession within one year, investors need to be worried about the current state of things.

The rationale is that once unemployment reaches a new low, those that are capable of working and producing a good or service (generating revenue) will have the necessary income to buy what they require. In turn, the expectations for increases in corporate profits reaches a new high, with the reality beginning to fall short of expectations. As every person wanting to work is already doing so, companies become unsuccessful as they try to increase their output. Essentially the market expects too much of firms which, although more profitable than ever, are unable to meet expectations.

The solution: make defensive investments

With so many cash strapped consumers during a recession, the alternative to dinner and a movie can easily become dinner at home followed by meeting friends at a theatre afterwards. What was previously a concert (more expensive) can also become a movie with friends (less expensive). Going to the movies is a fantastic alternative if you want to save money.

In Canada, the most dominant movie theatre chain is none other than **Cineplex Inc.** (TSX:CGX), which carries a beta of no more than 0.34 and offers a dividend yield of more than 5.5% at a current price of $30 per share. Although it was widely doubted that the earnings would be enough to sustain the ongoing dividend, it is worth noting that the pipeline of movies for the first half of this year has been impressive. With the first few months of the year exceeding expectations on the back of the movie *Black Panther*, the current quarter has started to be dominated by *The Avengers.* Both these movies are exceeding expectations.

With the potential for bottom-line profits to once again resume the upward momentum, there is little doubt that investors will once again be jumping into this name amid a falling stock market. To compound the challenges on the horizon, numerous job cuts will also follow the recession.

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1. TSX:CGX (Cineplex Inc.)

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Date
2025/08/24
Date Created
2018/05/03
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