Manulife Financial Corp. (TSX:MFC) Stock Is Oversold and Overdue for a Big Bounce

Description

Would you look at that head and shoulders (H&S) top in the stock chart of **Manulife Financial** (TSX:MFC)(NYSE:MFC)? It's a textbook technical pattern that just came to fruition. You'd be hard-pressed to find an H&S top that's this "pretty" in any textbook on technical analysis, as most examples tend to be far choppier.

Now, I know technical analysis may seem like voodoo to some skeptics, and I totally get that. We're all about the fundamentals here at the Motley Fool, and there's no denying that basing an investment decision solely on the past performance of a stock is a sure-fire way to get sub-par results.

Technical analysis as a supplement for timing entries (or exits) into stocks after you've done the fundamental homework, however, really can't hurt. If a technical pattern fails to come to fruition, you've already bought into the long-term fundamental story anyway, so there's nothing to lose by having a glimpse at the charts of a stock that you're about to pull the trigger on from a technical perspective.

Nice shoulders, Manulife!

Back in late July, I warned investors that Manulife stock was about to take a dip as the left shoulder, head, and part of the right shoulder of a potential H&S top pattern had looked to be in the works. Manulife stock was trading at around $24 per share at the time of my last piece, and I urged investors to remain patient, as an H&S top coming to fruition would have offered long-term thinkers a much better price and a fatter dividend yield.

Fast-forward to today, and Manulife shares have plunged 15%, and the H&S top is in the books. At just $20 and change, the stock looks like an absolute gift courtesy of Mr. Market, and thankfully, the worst seems to already be in the rearview mirror.

In my warning piece to investors, I noted that I liked Manulife's long-term growth story, most notably the company's Asian expansion and the tailwind of higher interest rates, but still urged investors to "hold off from backing up the truck on shares in spite of their cheapness and promising longer-term catalysts" because of the hideous-looking chart.

Now that a majority of the damage has been done, Manulife stock has a juicy 4.22% dividend yield, which is the highest it's been in recent memory. If you sold the stock on my technical take, you saved yourself from a substantial amount of pain, and now that the stock's been slapped with a 15% discount, I think long-term dividend investors ought to think about getting back into the stock before it bounces back.

Manulife's way oversold here, and I don't think the allegations made by short-sellers at Muddy Waters should deter investors from picking up what I believe is one of the biggest dividend bargains on the Canadian market. The company's Asian business is red-hot, and if you've got a long-term horizon, collect the dividend (yielding 4.22%) while you patiently wait for management to capitalize on growth from its international global wealth and asset management businesses which are slated to enjoy generational tailwinds.

Foolish takeaway

Technical analysis is a tool. It's not a perfect tool, but it can improve your probability of getting a solid entry point after you've already had the opportunity to do the fundamental homework. Solid business? Check. Attractive valuation? Check.

One more check on the technicals can't hurt, unless of course, you've got enough dry powder on the sidelines to buy more shares should the stock-under-question become even cheaper!

Manulife is a prime example of a great business with a cheap multiple that would have crushed investors had they shunned the technicals by backing up the truck at a time that technicians would have placed their short bets in spite of any promising fundamentals.

Stay hungry. Stay Foolish.

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