Now Would Be a Great Time to Get Greedy

Description

If you want to beat the market, you can't follow the herd.

It's an easy concept to understand on paper, but in the heat of the moment, when all stocks are being tossed to the curb, it's easy to forget that you're buying pieces of businesses, and not just abstract ticker symbols that go up or down in price.

While short-term traders rely on the "greater fool theory" and the occurrence of a binary event (stocks going up in value) over the near term, long-term investors like Warren Buffett are less concerned about the near-term or even what today's investors consider as the "long term."

Indeed, a long-term time horizon has shrunk in recent decades, and although it's as hard as it's ever been to focus on the long picture, investors who have what it takes to keep their emotions in check will be the ones that'll come out on top when this bout of volatility is finally in the rear-view mirror.

The herd is running for the hills right now due to the wide range of uncertainties that exist, and although the occurrence of ominous events could send us into a recession, it's important to remember that historically, the biggest winners in the market have been the ones that were able to go against the grain at times when it seemed reckless to do so.

Today, you'd look like a fool (that's a lower-case '"f") to put money into the markets with a hawk sitting on the Fed chair and with Donald Trump playing shot for shot with America's largest trading partner, as tensions brew between Canada and China after the controversial arrest of Huawei CFO Meng Wanzhou. Oh, and let's not forget about Brexit, the widening discount on Western Canadian Select (WCS), and the sheer old age of the current bull market, among the list of things to be concerned about.

At this juncture, nothing but pessimism is baked into the markets right now, and while there are plenty other macro issues to worry about, you should focus your attention on buying stocks of businesses that are priced at discounts to their intrinsic values, as you hang on for the significant drop around the corner.

Eventually, fears will fade, and there will be unforeseen events to be euphoric about, like Trump's corporate tax cuts that fuelled excessive exuberance in 2017.

Indeed, the stock market is a roller-coaster ride with wild ups and downs. If you buy after a steep climb, you should expect a big drop, and vice versa! One does not simply hop on a roller coaster with the expectation of a steady upward rise and no fall; the same is said of the stock market.

If you're a new investor who may not be properly positioned for the continued drop that you've signed yourself up for, you should take the recent bout of volatility as a confirmation that your portfolio is too aggressively positioned and take the opportunity to re-balance with cheap, defensive dividend payers like **Canadian Utilities** (TSX:CU), so you're able to better handle the swings going forward.

The markets aren't at all efficient, despite what many academics believe. Otherwise, we wouldn't have such wild swings, violent corrections, and extreme levels of volatility. With this market, inefficiency comes a great opportunity for calculated investors to beat the markets with severely undervalued stocks that have been wrongfully punished.

Canadian Utilities, I believe, is one of the deep-value plays that wouldn't exist if the markets were efficient. At the time of writing, Canadian Utilities is down nearly 30% from all-time highs, with a 5.11% dividend yield that's the highest it's been in recent memory. The stock trades at a 13.8 forward P/E, a 1.8 P/B, and a 1.9 P/S, all of which are lower than the company's five-year historical average multiples of 20.2, 2.4, and 2.9, respectively.

That's absurdly cheap, especially when you consider the name would serve as an ideal hiding place for those worried about an economic pullback.

Foolish takeaway

Right now, risk-free, 3%-yielding debt securities appear more attractive than any utility stock, but given today's valuations, I'd say the risk/reward trade-off is far more favourable for buyers of the risky asset, which I believe has a larger margin of safety than most would give the name credit for.

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