

Value Alert: Stalwart Stocks Have Fallen up to 33%

Description

Some big-name TSX stocks have dropped 30% or more in recent months. While sobering, this is not unprecedented. If you go back 20 years to the summer of 1998, there was a bigger sell-off caused by a Russian financial crisis.

When Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) fell 37%

During this 1998 black swan period, shares in TD dropped a whopping 37% in two months. The historic flash sell-off provides no consolation for the fact that TD is down 17% in the last three months. Blowing past a [support](#) level of \$69 per share, at what price will TD stock stabilize?

Short of answering this question, consider another important year: 2008. The subprime lending mortgage crisis was a recession with an infamous name: the “Great Recession.”

At the depths of the 2008-09 meltdown, valuations for TD were heavily depressed; the bottom on key metrics was still 30% further south from current valuation metrics (meaning that share price could still fall). The current sell-off will undoubtedly be less extreme, but caution is warranted for buyers.

TD is now as much a U.S. bank as it is a Canadian one. This growth in business diversity is largely an outcome of the Great Recession, as U.S. banks crumbled. TD stock is a must-have core holding for financials exposure, which is why I believe TD should be at the top of a 2019 buy list.

Royal Bank of Canada ([TSX:RY](#))(NYSE) is not immune

RBC is down 13% in three months. I’m not predicting a repeat performance from 1998, but if history were to repeat, RBC could fall another 20%. As the kingpin for Canadian financials, RBC fell to 1.5 times the price-to-book-value ratio (P/B) during the Great Recession. Relative to TD, RBC tends to covet a higher P/B ratio.

Predictions with a grain of salt

I provided historical figures not to scare fellow investors, nor make predictions. I do want to point out that current market gyrations seem to be more of a temper tantrum than anything else. Unlike 1998 (or other “great” crashes), there was no black swan event; instead, it’s more to do with *anticipated* slumping of earnings after the U.S. corporate tax relief and the reality of housing and global trade pressures.

It's as if the market has preemptively lowered expectations of future growth after record returns in many sectors leading up to the 2018 dump, which is precisely how markets work: they are forwardlooking.

Book these assets

Market history teaches valuable lessons. One lesson is that robust companies trading at all-time-low book values are poignant signals. TD and RBC have not reached those levels.

Industrial Alliance ([TSX:IAG](#)) and **Suncor Energy** ([TSX:SU](#))(NYSE:SU) have no further room to drop: they've already fallen 30% in one quarter. They are also both trading at a P/B levels that are comparable to the Great Recession, which is below book value for Industrial Alliance.

Take-home message

Fool contributor Joey Frenette recommends [nibbling](#) at some of these deeply discounted stocks. I'm expecting Suncor and Industrial Alliance to rebound swiftly. All four mentioned here are strong dividend stocks.

Focusing on stocks that were battered but not beaten is a good way to evaluate the current environment. Dividend safety — that is, keeping dividend the same or increasing it during tough times — is a tried and tested way to identify stocks that are down but not out.

CATEGORY

1. Bank Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:IAG (iA Financial Corporation Inc.)
5. TSX:RY (Royal Bank of Canada)
6. TSX:SU (Suncor Energy Inc.)
7. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing
3. Stocks for Beginners

Date

2025/06/28

Date Created

2018/12/29

Author

bmacintosh

default watermark

default watermark