RRSP Investors: 2 Top Oversold TSX Index Stocks to Buy in January

Description

The pullback in the TSX Index over the past few months has set investors up with a multitude of attractive stocks to consider for their self-directed RRSP portfolios.

Let's take a look at two stocks that appear oversold today and could be rewarding picks for a retirement savings fund.

Suncor (TSX:SU)(NYSE:SU)

Suncor is down amid the broad sell-off that has hit the energy sector in Q4 2018. WTI oil prices fell from US$76 per barrel to US$44 in a matter of weeks, triggering a total meltdown.

Producers with debt problems should be avoided, but those with strong balance sheets are becoming very attractively priced. Suncor in particular is an interesting pick right now. The company's integrated business structure provides a nice hedge against falling oil prices, as the refining and retail operations tend to perform well when oil tanks.

Troubled players in the industry become prime takeover targets for Suncor in difficult times, and the company has the firepower to acquire top-quality assets at cheap prices during a downturn.

The stock now trades at $38 per share compared to the 2018 high around $55. Production is set to increase next year, and two major development projects are now complete, putting less pressure on capital requirements. Suncor has a solid track record of dividend growth, and that trend should continue.

At the time of writing, investors can lock in a 3.8% yield and wait for the market to turn.

Further downside in the oil market simply serves up better acquisition opportunities, and at some point, oil will reverse course. When that happens, Suncor should trend back toward the recent highs.

Bank of Montreal (TSX:BMO)(NYSE:BMO)

Bank of Montreal might be the Goldilocks pick in the Canadian banking sector today. The company has a balanced revenue stream coming from commercial and personal banking, wealth management, and capital markets operations in both Canada and the United States. The U.S. business is benefitting from reduced taxes, and the weakness in the Canadian dollar compared to its U.S. counterpart means U.S. earnings provide a nice boost to profits when converted.

Bank of Montreal has low relative exposure to the Canadian housing market, so a pullback in house prices should be less problematic for the bank than it could be for a couple of its peers.

The stock is down from $108 per share in September to below $90. This puts the price-to-earnings multiple at a reasonable 11 times trailing 12-months profits. Dividend growth should continue and the current payout provides a yield of 4.5%.

The bottom line

Investors finally have a chance to pick up some bargains for their self-directed RRSP portfolios. At current prices, Suncor and Bank of Montreal should be solid buy-and-hold picks.

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