Are You Ready for a 2019 Stock Market Melt-Up?

Description

New year, same volatile stock market.

Triple-digit moves are still the norm, and although many investors have been hitting the panic button of late due to the stomach-churning day-to-day moves, Foolish investors like you and me relish moments like these, when bargains are being served up on a constant basis.

A lot of wealth has been destroyed since October, and while there are a tonne of things to worry about in 2019, disciplined investors who can keep their cool are going to set themselves up for what will likely be a very profitable next five years.

Stocks have sold off violently primarily because investors are fed up with the Fed's hawkishness and Trump's trade spat with China

The tariffs from the trade war and the fast-and-furious interest rate hikes from Fed chair Jerome Powell could have been the perfect one-two punch to the gut of an otherwise healthy economy, inspiring some folks, including Jim Cramer of *Mad Money*, to conclude that the recent bout of volatility was "man-made."

Indeed, rapid-fire rate hikes and self-destructive tariffs could have sent us into a man-made global recession, but with the excessive gloom on the Street, many overly pessimistic investors struggled to foresee an outcome that was anything short of a disaster.

What if the Fed backs down? What if a peaceful resolution is reached between Trump and Xi Jinping? What if there's nothing to fear but fear itself? These are the questions that few investors wanted to wait around to learn the answers.

Like many man-made mistakes, they're easily reversible. On Friday, Powell pretty much announced that he's no longer going to be an enemy of investors with his dovish commentary that triggered a sharp rally.

As we head further into 2019, the odds of a peaceful ending to the trade war look to be escalated (both the U.S. and China are starting to feel the pain), and should it happen, not only will we likely be back at all-time highs, but you're going to hear "market melt-up" again, as investors pick up from where they left off last January, when the stock market went parabolic. The only difference this time around is that we'll be getting impressive growth minus the rocketing inflation that Powell was worried about ever since taking a seat at the Fed chair.

In such a scenario, the most battered of stocks could end up soaring into the stratosphere

CIBC (TSX:CM)(NYSE:CM), whose stock has fallen nearly 20% from peak to trough, could easily return to prior highs by year-end. And for those courageous enough to buy the dip, there's a higher-than-average 5.3% dividend yield to sweeten the pot.

In the face of potential crisis, financials like Canada's banks could get seriously hurt, and that's a huge reason why CIBC shares had flirted with bear market territory, despite already being cheap when shares hovered near their highs.

If you don't buy the recession predictions, CIBC is a definite buy, not just for the appreciation and the dividend, but for the multi-year transformation that'll see CIBC turn into a more robust bank that'll warrant a narrowing in the valuation gap between CIBC and its bigger brothers in the Big Five.

CIBC is doubling-down on the U.S. market, and long-term investors are essentially getting a premier bank in the future for a heavily discounted price today.

If 2019 ends up being a rebound year, you're going to want to own CIBC stock, because at just eight times next year's expected earnings, it's unsustainably undervalued given its long-term growth trajectory.

Foolish takeaway on CIBC and the excessive pessimism in the broader market

I probably sound overly bullish given the turmoil we've seen over the last year. And although you may think I'm a perma-bull, it was only a year ago that I'd warned investors to prepare for a correction (or bear market) as the stock market "melted up" at a time when everybody was euphoric over expensive stocks.

I've merely reversed roles with my bull hat on now that others are so convinced that a recession is coming when, in fact, we've hit nothing but a few easily fixable, man-made bumps in the road.

Could a recession happen in 2019 or 2020? Sure, but I thought it was just as likely a year ago. The only real difference is that stocks are around 20% cheaper. As a long-term value investor who carefully considers both the risk and reward, CIBC screams deep value!

Stay hungry. Stay Foolish.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/23
Date Created
2019/01/07
Author
joefrenette