Don’t Let This Super Stock Sale Pass You by!

Description

There are many rules of thumb that many investors stand by. For instance, many academics claim that the markets are semi-strong efficient, meaning that fundamental analysis will do little to nothing to get you excess risk-adjusted returns and that one should simply stick with index funds that match the market.

If the markets were semi-strong efficient and fundamental analysis didn’t work, then Warren Buffett wouldn’t have crushed the markets consistently over the course of decades. Clearly, Buffett is evidence that the markets may not be as efficient as the academics believe. An efficient market is an all-too-convenient theory for academics because, in reality, there are far too many variables to truly understand the state of efficiency in the stock market.

Moreover, as the markets continue breaking down, correcting, crashing, and attempting to make up for mistaken assumptions and misinterpretations of publicly available data that have gone unnoticed for years, an opportunistic few will be patiently waiting to take advantage of a timely window to pay a dime to get a dollar.

Indeed, over the past year, we’ve seen the market break down many times. With triple-digit moves happening daily, the market definitely appears to be broken. And it’s times like these when the degree of market inefficiency is at its high, opening a window of opportunity for Foolish investors to buy cheap stocks that’ll have a greater chance of beating the market over the medium to long term.

While the markets could undoubtedly head a lot lower from here, it’d be prudent for value hunters to go shopping for bargains today, because stocks are cheap, bargains are abundant, and the markets could surprise everybody with a very sharp rally tomorrow.

Believe it or not, markets also correct upwards if it turns out that loss-averse investors were too fearful over matters that end up being more benign than initially anticipated. And corrections, regardless of direction, tend to experience higher-magnitude moves than that of the prior movements of the opposite direction.

So, with that in mind, it makes sense to buy as others head for the hills in fear. The best part is, you don't need to make a big bullish bet on a cyclical stock at one instance in time, as it's not so much about what you buy when the markets falter, but that you're actually buying as others sell.

Fortis (TSX:FTS)(NYSE:FTS) is an example of a boring defensive dividend stock whose moves are less correlated to macroeconomic or geopolitical uncertainties than your average stock. It's essentially a bomb shelter stock with operating cash flows that are highly regulated and are thus more than likely to continue flowing in with very little in the way of uncertainty.

Think of the stock as a bond that'll appreciate as equities as an asset class become great again. Also, you're getting a 4.05% dividend yield that's slated to grow every year by around 6%. Do you want continuously growing perpetuity with a generous upfront yield and a nearly guaranteed mid-single-digit raise every single year? Or do you want a short-term bond with a non-growing coupon that'll stand to fall in price as rates rise?

The choice is yours. But for younger investors who want to play both the bull and bear side of the coin, Fortis is a terrific bond proxy that'll allow investors to amass incredible wealth over the long term, especially within a tax-free vehicle like a TFSA.

Foolish takeaway on Fortis and stock sales

The markets have plunged a lot lately, and if you haven't bought a single thing over the last four months, it may be time to put some of your TFSA proceeds to work. You don't need to bet on a name that'll give you the most upside should the markets reverse, as it's as simple as buying a defensive gem like Fortis to provide you with an edge over the herd that is running to bonds over fears of an imminent recession.

Stay hungry. Stay Foolish.

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