3 Financial Stock Picks for July

Description

Financial stocks get a bad rap. You can profit off these misconceptions.

Following the 2008 and 2009 credit crisis, many investors have avoided financial stocks under the belief that they're more risky than the overall market. That's a mistake.

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In reality, many financial stocks are *less* risky than the overall market. Some have business models that hardly budge during bear markets.

If you want to take full advantage and add serious upside to your portfolio without taking on excess risk, the following stock picks are for you.

Stick with me

Now here is a stock you've likely never heard of, but stick with me on this.

Alaris Royalty Corp. (TSX:AD) is a private equity company that invests in North American business. While its $700 million market cap is tiny, that's actually a big advantage as it affords it the opportunity to invest in smaller deals with little to no competition.

Instead of taking common equity, Alaris provides non-dilutive financing to its portfolio, a huge draw given that partners don't need to give up ownership. In exchange, Alaris receives regular interest payments from the companies it assists.

Earnings aren't the perfect valuation metric for this company, but it's notable that shares trade for under 11 times forward earnings at writing. That combined with its 8.8% dividend make Alaris a steal.

No one is paying attention to this stock, but you should.

Ridiculously cheap

Manulife Financial Corporation (TSX:MFC)(NYSE:MFC) is one of the cheapest stocks you can buy today. Shares trade at just 8.4 times forward earnings with a dividend of 4%.

And it's not like the company isn't growing either; the stock trades at a rock-bottom 7.9 times 2020 earnings valuation at writing.

Perhaps investors are growing disappointed with the stock's recent performance. Over the last five years, shares have generated annual returns, including dividends, of just 6%. It would therefore be a mistake to ditch the stock now.

Last quarter, the company posted first-quarter profits of US$2.2 billion, up from US$0.8 billion the year before. Net book value grew US$500 million to US$19.08 per share, above the current stock price.

The latest growth comes from a resurgence in Manulife's Asian segment. "In Asia, new business value increased 23% from the prior year driven by higher sales," said its CFO during a recent conference call.

A discounted valuation, high dividend, and renewed growth make Manulife a steal, especially if another bear market hits.

Buy the fear

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Genworth MI Canada Inc. (TSX:MIC) is another cheap financial stock trading at under eight times forward earnings. Its 4.7% dividend is starting to look too attractive to pass up.

In Canada, mortgage insurance is federally mandated for mortgages with an initial down payment of 20% or less. Genworth dominates this market. It's now Canada's largest private mortgage insurer with a multi-decade history.

Investors have worried about the commoditization of this market for years. Despite pervasive fears, however, it simply hasn't happened. If you bought shares in 2009 and reinvested your dividends, your nest egg would have grown by around 200%.

If a real estate bear market hits, Genworth would obviously be impacted. But in any other bear market, the ultimate risk would be minimal given that the average credit score of a Genworth borrower is nearly 790 points.

The market keeps discounting this stock, but long-term investors have continually been rewarded.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:AD.UN (Alaris Equity Partners Income Trust)

3. TSX:MFC (Manulife Financial Corporation)

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