2 Stocks That Are Too Cheap to Ignore

Description

It's never been more important to own cheap stocks. For more than 50 years, simply buying cheap stocks has been a reliable way to outperform the market. That's because investing is largely an expectations game.

If results exceed expectations, the stock price usually goes up. Cheap stocks, by definition, have low expectations, making it easier for them to beat consensus estimates.

Even in a pricey market, cheap stocks exist. The following two picks are getting too cheap to ignore.

Trust the discount

Whenever **Fairfax Financial Holdings Ltd** (TSX:FFH) has traded near book value, it's always been a good time to buy. Since 1985, shareholders have experienced annual gains above 17%.

Few stocks can match this long-term track record of performance. It's a big reason why Prem Watsa, the founder and CEO of Fairfax Financial, is often compared to Warren Buffett. In many ways, Fairfax Financial is like a mini **Berkshire Hathaway Inc**.

Currently, the stock trades at exactly 1.0 times book value, a five-year low. This appears to be a very compelling buying opportunity.

Fairfax Financial owns and operates a variety of insurance businesses. These subsidiaries provide the parent holding company with huge amounts of permanent capital – – that is, capital available to reinvest regardless of market conditions.

This allows Fairfax Financial to invest large sums of money throughout the market cycle, a huge advantage when prices plummet and liquidity tumbles.

Buying at book value means the market is ascribing no premium to the company's historical success. It's looking at that 17% annual return number and deciding that it doesn't warrant any special consideration. That’s a crazy assumption.

Every factor that contributed to the company’s past success is still intact. Prem Watsa is just 66 years old. That’s decades younger than Buffett who will soon turn 89 years old.

The company is also worth just $17 billion, giving it decades of potential runway for growth. Berkshire Hathaway, for comparison, is worth more than $500 billion.

The market isn’t respecting Fairfax’s multi-decade history of success. Now is your chance to capitalize.

Bet the spread

When it comes to investing in mining companies, there’s one simple trick for success: buy just before the production premium is applied. What does that mean? Resource companies are often lumped into two categories.

The first is pre-production, which, as the name implies, means the company isn’t actually producing any output yet. The second is post-production, which means the company is churning out sellable materials every quarter and generating revenue.

Companies in pre-production receive a huge discount to their valuation. Sometimes, they’re worth just 10% to 20% of their producing peers. Often the discount is justified, as countless companies fail to evolve into a production-worthy business.

But if you can buy before production begins, you can double, triple, or even quadruple your money once the market re-rates the stock higher.

Lithium Americas Corp. (TSX:LAC)(NYSE:LAC) is a perfect opportunity to execute this strategy. The company has been developing its lithium mine in Argentina for nearly a decade. All of the necessary financing and infrastructure is now in place.

Production should begin next year, with free cash flow possible within the first few quarters of operation. I’ve estimated that its mining assets could be worth around $20 per share, but because the company is pre-production, the stock is being priced at just $5 per share.

Betting on a valuation spike following first production could pay off in 12 months or less.

CATEGORY

1. Bank Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. NYSE:LAC (Lithium Americas Corp.)
4. TSX:FFH (Fairfax Financial Holdings Limited)

5. TSX:LAC (Lithium Americas Corp.)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Investing
3. Metals and Mining Stocks

Date
2025/07/17
Date Created
2019/08/12
Author
rvanzo