TFSA Investors: 2 “Undervalued” Stocks That Could Correct to the Upside

Description

Elevated levels of volatility brought forth by Trump’s trade war with China, a not-so-dovish U.S. Fed, Brexit, an inverting yield curve, and all the like are making equities less attractive to investors.

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A high degree of uncertainty and choppy markets have caused many fearful investors to flock towards alternative assets like gold, and although these highly volatile times are seen as unfavourable for investors, it may actually be a blessing in disguise for do-it-yourself stock pickers who are on the hunt for value.

You see, more uncertainty and erratic trading mean the markets are less likely to be as efficient as they’d be otherwise. A more inefficient market means a greater abundance of opportunities to buy stocks at discounts to their intrinsic values. For those willing to put in the homework and dig for the deals, the chances of beating index funds are now that much higher.

It’s a stock picker’s market right now, so here are two names to pick up if you’re looking to buy in spite of the wide range of macroeconomic uncertainties.

Quebecor

Quebecor (TSX:QBR.B) seldom goes on sale, but when it does, investors should think long and hard about buying the name on dips.

The Quebec telecom and communications company essentially has a wide moat around the province of Quebec. Management knows its home market well, the company has a strong household penetration, and the Quebecois are loyal to its Quebec-based brands like Vidéotron.

Although other Canadian telecoms have begun moving further into Quebecor’s turf, I’d say Quebecor still has the home advantage. Staying within one’s own circle (or geography) of competence is Quebecor’s strength, and now that shares have corrected over 10%, I’d say it’s time to start nibbling on the stock before it gets back to its long-term upward trend.

Quebecor is a cash cow that trades at just 14.3 times next year's expected earnings, and I think the width of its moat is being discounted by the average investor.

NFI Group

I'm not a fan of cyclical companies that are the business of manufacturing long-lived assets, but as someone wise once said, at a certain price, every stock becomes a buy, even the less-than-stellar ones.

NFI Group (TSX:NFI) is a stock that trades at such a price. The bus maker has an excellent track record of mitigating operational risks, but recently the stock has fallen into a rut, now down 55% from its all-time high.

Just last month, the company "pre-reported" weaker-than-expected delivery, order, and backlog numbers for the second quarter, causing shares to plunge as analysts downgraded the stock.

While management hopes to pick up deliveries and new orders in the second half, **CIBC** analyst Kevin Chiang doesn't think that improvements will be made until early next year. I think Chiang was right to downgrade his guidance and price target, but now that the bar has been lowered, both by management and a handful of analysts, I think the stock is becoming ripe for picking now that the yield has swelled to 6.3%.

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Foolish takeaway

There will always be uncertainties and something to worry about as an investor. The sooner you can get used to high levels of volatility, the more effective you'll be at spotting bargains as they come to be, and the better your TFSA's performance will be over time.

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1. Dividend Stocks
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2. TSX:QBR.B (Quebecor Inc.)

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