



Don't Buy Lottery Tickets: Bet on This Stock Instead

Description

I've always been a fan of utility stocks because they're great steady, long-term investments. But last year, when interest rates were rising and stock prices were falling, I was pushing them hard. The value was there, and I was absolutely 100% recommending those companies like crazy as no-brainer buys.

The same goes for oil and gas. There have always been good companies worth purchasing, but now the deals are so ridiculous that I'm pumping oil and gas like crazy (pun intended). So what's changed to make these beaten-down portfolio killers such a good risk? Finally, how big should you go and what should you buy?

What's changed?

There are a number of big reasons for depressed stock prices in Western Canada. Pipelines have been slow to build. Political will and sentiment to get projects approved have been terrible.

Finally, a general downturn in oil prices has scared most investors away from the sector. Each of these questions has begun to be resolved, however, and with the overwhelming negativity, there's far more chance of a positive surprise than more negative ones.

Although transportation by rail and pipelines has been a real issue, there's some light on the horizon. Just last week, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) announced that its Line 3 is finally [ready to ship oil](#) in Canada now.

In the future, it's hoped that tens — and perhaps hundreds of thousands of barrels per day of oil will be moved through pipelines, helping Canadian oil find new markets and reduce bottlenecks.

Political sentiment also may become more favourable in the future. The decimation of the liberal party in a large part of Western Canada may open up the liberal's eyes to the financial need to work together with these provinces in the future.

How big should you go — and how should you buy?

To be honest, I wouldn't bet my family's future on these stocks. I still consider them to be more akin to lottery tickets than anything at the moment. I, along with many others, am disillusioned with the performance of these stocks over the past few years.

The great news is that you don't have to put in much to have the potential to make great returns.

If you're like me and put perhaps 80-90% of your money into stable, dividend-paying stocks, you're in luck. Any dividends you receive from a great dividend company like **Emera Inc.** ([TSX:EMA](#)) could be used to buy shares of oil and gas stocks.

This allows us to use a psychological bias called mental accounting to perceive the dividends as "free money" that you can play with. It's not your "original money," as it were.

If you owned, for example, \$10,000 dollars in utility stock shares paying an average yield similar to Emera's at 4.49%, then you'd be receiving about \$449 a year to use to buy oil stocks. Put that dividend cash to work and you won't feel like you are spending your "own" money on these relatively risky companies.

So what should you buy?

As these are your lottery replacements, buy decent companies with improving balance sheets with the potential for massive price appreciation. A stock like **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is a [perfect candidate](#) for a well-placed bet.

For one thing, this company has been making massive efforts to strengthen its balance sheet and buy back shares. Proceeds from asset sales and from free cash flow are all being used towards this purpose. It also trades on both the Canadian and American stock exchanges, giving it easy access to investors.

It doesn't have much of a dividend anymore, which is a bit of a bummer, but with the cash flow being used to buy back shares at such a low price, it could be argued that this is a better use of capital in any case.

The bottom line

These stocks will have a massive payout one day, but you need to start getting in *today*. The situation is improving for Canadian companies and they are still cheap. You don't need to bet everything on them.

Even a small investment could pay off massively. Use those secure dividends to buy these stocks and wait for the big price appreciation that's on its way.

CATEGORY

1. Energy Stocks
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Date

2025/08/26

Date Created

2019/12/06

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