Don’t Ignore These Cheap Stocks in 2020

Description

Buying cheap stocks has proven to be a winning bet for decades. Don’t just buy any cheap stocks, however. Some cheap stocks are cheap for a reason. Betting on a turnaround can be a fruitless endeavour.

Meanwhile, some stocks are *incorrectly* priced on the cheap. Perhaps they’re overshadowed by other factors. Maybe the market fundamentally misunderstands what’s going on. This is exactly the case for the following two stocks.

On every important metric, these businesses are doing better than ever, yet their share prices don’t necessarily reflect this reality. You can use this mismatch to your advantage, scooping up high-quality stocks at a bargain price.

Everything is *not* the same

One of the cheapest areas to invest in today is Canada’s energy sector. You’d be hard-pressed to find a more out-of-favour market.

Over the past few years, many energy stocks have fallen by more than 50%. Even the highest quality companies have traded sideways at best, lagging the market by double digits.

But be careful. Most energy stocks are the definition of “cheap for a reason.”

Falling valuations have stemmed from two events.

In 2014, oil prices crashed from US$100 per barrel to under US$50 per barrel. Many analysts were expecting a quick rebound, but six years later, prices remain depressed.

Then, in 2018, Canada's oil market was flooded with supply, causing regional pricing to fall as low as US$15 per barrel. The glut has cleared up, but most companies are expecting a difficult market for several more years.

If you're an energy producer, the future isn't about to get any easier. However, investors can make big money by betting on energy companies that will profit *regardless* of where commodity prices move long term.

Stocks to bet on

The best energy securities to bet on today are pipeline stocks. The reason is simple: they benefit from rising domestic production, but are largely insulated from pricing volatility.

Consider my top two pipeline stocks, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Inter Pipeline Ltd** (TSX:IPL). From 2014 to today, oil prices have fallen by roughly 50%. Both Enbridge and Inter Pipeline, meanwhile, have both *gained* in value when including dividends.

Pipelines are insulated from pricing swings because they charge customers based on how much oil or natural gas they ship, not on the current cost of energy.

Whether oil prices are at US$90 per barrel or US$40 per barrel, Enbridge and Inter Pipeline will profit.

It also helps that both companies own unique assets that are incredibly difficult to replace. Pipelines are the cheapest, fastest, and safest way to transport fossil fuels over land, giving them pricing power over other modes of transport such as rail or truck. Pipelines also cost more than $100 million to build, so competition is kept at a minimum.

Due to the energy bear market, the dividend for Enbridge stock now stands at 6.3%, while Inter Pipeline shares yield an impressive 7.6%.

These deals won't last long, however. In 2020, get the perfect blend of income, stability, and value with Enbridge and Inter Pipeline stock.

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