Contrarian Investors: Time to Buy Stocks and Profit From a Beaten-Down Market?

Description

The turmoil on the TSX that started during the final week of February has spilled into March. The down trend is gaining momentum after the **S&P/TSX Composite Index** lost more than 1,660 points to close 10.27% lower during Monday's market crash.

Could this be the once-in-a-long-time opportunity for contrarian investors to pick up some jewels in the dust?

The best answer probably lies somewhere in the reasons why the Canadian stock market is falling, and why it was among the worst hit equity indices yesterday.

Why was the TSX beaten down on Monday?

All global equity markets traded down on Monday.

The U.S. **S&P 500** index lost 7.92% while the **Dow Jones Industrial Average** closed 7.98% lower. The Canada country ETF took a 12.5% knock on a day its Saudi Arabia counterpart shed 17.3%. The Russia country ETF was the worst hit after losing 19.8% of its valuation in just one day.

The Saudis' price aggression was purportedly at the centre of Monday's 24% one-day plunge in oil prices. This added negative momentum and another shock to an already jittery investing community that has yet to confidently price a worsening coronavirus outbreak.

We can see that countries whose economies are relatively more dependent on oil revenues took the biggest punches on Monday.

More weakness could follow

The TSX Composite is 13.8% weighted in energy stocks. If sustained for longer, the near 40% one-day-drop in Western Canadian Select oil price benchmark could further weaken the TSX in the coming days.

Oil producers' cash flows will take significant knocks. Prior cost-cutting measures may not save their income statements at prices in the mid-teens per barrel. The same predicament may also apply to many U.S. shell oil producers who may struggle to repay their debts.

A jewel in the dust?

Oil pipelines and energy distribution giant **Enbridge**'s (TSX:ENB)(NYSE:ENB) stock price fell 16% on Monday to bring the yield on the company's regular and well covered dividend to 7.6% annually.

Dividend yields higher than 7% are generally considered high risk and unreliable. The punishment on ENB shares could be a market overreaction. About 98% of the energy firm's cash flows are contracted, mainly with investment-grade counter-parties.

Enbridge's cash flows may not suffer much from the recent oil price plunge in the near term. This makes buying its shares a potential defensive play.

I'm also tempted to think that Russians, Saudis and OPEC members will be compelled to come to terms with one another and stop any price wars for their common good.

This is just a speculative thought, and oil may be down for longer. More so if the coronavirus remains uncontained and the world economy grinds to a halt.

But as long as some contracted oil, electricity, and gas continues to flow through Enbridge's pipelines, gas terminals, and power pylons, the company may still produce enough distributable cash flow to grow its historically reliable dividend pay-out.

Foolish bottom line

Perhaps the sudden oil rout is also a signal that the global health scare could negatively impact oil demand by a significant magnitude going forward, as long as workers increasingly stay at home, world travel suffers, and a global recession awaits confirmation.

It's hard to call a bottom on the TSX and other world equity market indices right now. However, wherever that bottom might be, the current plunge could turn out to be an opportunity. It could be the best time for anyone sitting on some cash to start deploying it on some favourite names. The long-term return could be much higher. Especially if the new positions opened today are held for five years or longer.

Today's challenges won't hold equity markets at ransom forever. Perhaps it's time to take advantage of portfolio dividends and buy even more shares during this down market.

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