Stop Timing the Market: How to Invest in Times of Great Uncertainty

Description

The stock market recovery from the coronavirus crisis has been unforgiving to those who panic sold in the heat of the moment. Few things are more horrifying than a pandemic. With an unprecedented rise in unemployment numbers, there was no question that a depression was plausible before the U.S. Fed came to the rescue.

To this day, the U.S. looks to be in a very unfavourable spot as far as the data is concerned. But as someone wise once said, “the stock market is not the economy.” So, if you sold your stocks based on the horrific economic data, you likely lost your shirt and will have to buy back your positions at much higher prices. This goes to show that timing the market is a fool’s (that’s a lower-case *f*) game, and no prudent long-term investor should do it.

Typically, the best results come to those who resist the urge to time the markets. So, if you’re ready to surrender to whatever Mr. Market does next, consider taking an “all-weather” approach with stocks that can fare well over prolonged periods of time, regardless of what ends up happening with this unpredictable market.

A blue-chip defensive dividend stock that may be cheaper than it seems

Consider shares of a blue-chip defensive dividend stock like **Fortis** (TSX:FTS)(NYSE:FTS), which tends to be a must-buy whenever it pulls back in the slightest, regardless of the state of the broader economy. Such a “bond proxy” can keep your portfolio afloat, so it’ll be easier for you to tune out the fear-inspiring forecasts that you’re likely to hear after the broader market takes a spill.

I like to view Fortis as a “bond proxy” that can offer a glimmer of certainty, even in the most uncertainof market conditions. The stock sports a bountiful 3.6%-yielding dividend that will be subject to mid-single-digit annual growth thanks to the firm’s highly predictable, regulated operations that stand to be minimally impacted by broader macro events that would wreak havoc on the operating cash flows of most other firms.

TD Securities labelled Fortis as an “Action List Buy,” with a $63 price target, implying around 19% in upside from today’s levels. That’s not massive upside by any means, but compared to the low risks you’ll bear at today’s modest valuations, Fortis looks to have a highly favourable risk/reward trade-off for all investors looking to get an edge in these unpredictable times.

Foolish takeaway

At the time of writing, Fortis stock trades at 11.4 times EV/EBITDA, 1.4 times book, and 8.9 times cash flow, all of which are in line with the stock’s five-year historical average multiples of 11.8, 1.45, and 7.5, respectively.

Shares are by no means a steal based on traditional valuation metrics, but given how ridiculously unrewarding “risk-free” assets such as bonds have become in recent years, I’d argue that shares of Fortis may be more undervalued than they seem given the potential for multiple expansion should fixed-income investors rotate into bond proxies. Once this market recovers, quality low-risk yields are going to be harder to come by, so Fortis may have more than offer than meets the eye.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

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Date

2025/08/24
Date Created
2020/06/05
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