TSX Stocks: 1 Golden Rule for Value Investing

Description

Value investing, like any other strategy, requires surprisingly few parameters. A solid play using this type of thesis requires a **TSX** investor to identify quality names selling at a fraction of their actual worth. So far so good. But investors also need to do one other thing in order to optimize a value play.

Today let's take a look at an undervalued stock, how to buy it in the current market, and what to do with it.

Buy devalued stocks, but carry on holding

Selling too soon is a good way to lose money on undervalued stocks. Perhaps your value opportunity, once bought into, fails to pay off as quickly as you might like.

Or perhaps your stock loses even more ground on the markets. In the latter case, an investor only realizes their losses by actually selling. If investors saw real worth in that company, though, they should take a deep breath, keep calm, and carry on holding.

The saying "favour fortunes the prepared" is applicable here. Investors snapping up shares based on their sector-comparative market ratios should also factor in personal financial horizons. Look at a stock such as **Polaris Infrastructure** (TSX:PIF). This is a perpetually undervalued stock.

Its shares change hands 80% below fair value, with a sector-beating P/E of 10 times earnings, and a price-to-book of just 0.8.

However, Polaris is nevertheless up 23% over the last three months, while year on year it's managed to lose just 7%. Even a conservative consensus estimate puts upside potential at around 80%.

At the most bullish end of the scale, realizing a high target price of $30 would make Polaris a multi-bagger with over 100% upside. In other words, it could be well worth Polaris shareholders to keep skin in the game.

Buy-and-hold for long-term gains

Buying in stages is a good way to make use of the many peaks and troughs of a frothy market. In more predictable times, investors would ordinarily wait for the bottom.

However, as the March sell-off showed, the bottom could be anywhere. What's more likely is that the TSX has reached the top, which means that even already well-valued names like Polaris could go on sale later this year.

Another strong reason to buy and hold stocks based on a value investing thesis is their yield. When it comes to stocks that pay a dividend, shareholders who buy in when names are on sale can reap the rewards for years. A 6% yield is on offer from Polaris at its current low valuation.

This deeply undervalued stock has a projected three-year payout ratio of just 38%, meaning that dividends are well covered.

Strong assets and genuine real-world worth are the bedrock of value investing. It's the difference between steady, calculated long-term gains and snapping up cheap TSX stocks while hoping for the best.

While a *buy* thesis is obviously important, some flexibility – for instance, in timelines – needs to be factored in. To summarize: Trust your homework and be patient if that undervalued stock is taking its time to appreciate.

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