



COVID-19: Is Now the Time to Buy TSX Stocks Hardest Hit by the Coronavirus?

Description

The coronavirus crisis has sent stocks that were unfortunate enough to be within certain hard-hit industries to crater. Many companies within the travel, restaurant, financial, energy, and office real estate industries are still a country mile away from their pre-pandemic highs, having not fully participated in the relief rally in the broader markets.

While there is a high degree of uncertainty relating to when (or if) a COVID-19 vaccine will land and how effective it will be in eliminating the insidious coronavirus, I think that many of the hardest-hit stocks on the TSX Index could prove to be severely undervalued today if a vaccine were to land sooner rather than later, or if the ominous second wave of COVID-19 cases ends up being milder, if it ends up happening at all.

Top doctor Anthony Fauci doesn't think that a second wave is "inevitable." Although reopening rollbacks in various U.S. states is concerning, unprecedented central bank backing and promising news relating to progress on multiple COVID-19 vaccines under development could be enough to justify a contrarian bet on some of the hardest-hit COVID-19 stocks on the market.

In a [prior piece](#), I'd outlined the "barbell" strategy and how one could improve their portfolio's risk/reward equation in these unprecedented times by finding a balance between risk-off stocks that are immune to the coronavirus and risk-on stocks that have been crushed by the COVID-19 pandemic.

Following [promising news](#) relating to progress on **Moderna's** vaccine trials, we witnessed, once again, that COVID-19 stocks could boost your portfolio and are not to be written off by investors who desire an optimal risk/reward tradeoff at this juncture.

Nobody knows if more good news will come out of the pipeline of all these vaccine developers. But it'd be in the best interest of most investors to hedge one's bets to profit, regardless of what's to happen next with this pandemic or the plethora of vaccines that are currently under development.

If you're rattled by excessive amounts of volatility and would rather play it safe, like Warren Buffett, by avoiding tough-to-value stocks like the airlines, there's no shame in playing it defensively amid this

crisis. Short-term pain for long-term gain isn't everybody's cup of tea, after all. Nobody knows what's going to happen, and it's prudent to be prepared in case the market rolls over again.

Flex your muscles with a “barbell” approach

But if you're young, I'd encourage you to adopt more of a barbell strategy, so you'll improve your odds of achieving greater returns exiting this pandemic. If we have more days like Wednesday, where COVID-19-hit stocks led the upward charge, you could be leaving upside on the table if you're playing it too defensively, with *too* much cash and cash equivalents sitting on the sidelines.

As a value-oriented investor, I'd consider securities that are historically undervalued, because these are the names that could pop on the advent of an effective COVID-19 vaccine. Think a battered real estate play like **H&R REIT** ([TSX:HR.UN](#)), which has a heavy weighting in office and retail properties, two of the most out-of-favour places to be in real estate amid the pandemic.

Shares of H&R REIT got clobbered, with shares falling over 65% from peak to trough on the COVID-19 crash. Today, shares are down over 57% off its five-year highs, because of the excessive pessimism surrounding the fate of office and retail space, as this pandemic continues to drag on. The REIT already slashed its distribution, and with shares sporting a nearly 7% yield at the time of writing, I think it makes sense to place a bet in the battered commercial real estate kingpin.

Foolish takeaway

While the demand for office and retail real estate is likely to be muted for years after this pandemic concludes, I think the value of the assets is heavily discounted by investors at this juncture.

You've probably heard that a majority of workers aren't going to return to the office, even after COVID-19 is eradicated. While this may be true for certain firms, I ultimately believe we'll see a considerable reversion to mean, whereby office demand will approach pre-pandemic levels in due time. And that makes me bullish on H&R REIT at these depths.

CATEGORY

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