Are Highly Discounted Stocks Worth it?

Description

The COVID-induced market crash we saw earlier this year had an impact on nearly every portfolio. Fortunately, the crash also presented an opportunity for investors. Stocks crashing to new lows exposed a buying opportunity for some coveted and highly discounted stocks. The crash also leveled the playing field for some highly volatile options, raising the question if it's finally the time to buy.

Here's a look at two stocks that have dropped considerably during 2020 and whether they belong in your portfolio.

Planes, trains, or nothing?

Bombardier (TSX:BBD.B) is a name well known to bargain-hunter investors. The plane and train manufacturer has spent the past several years surviving one crisis after another. During that time, we've seen the company slash costs through staff and facility reductions, while focusing efforts on growth areas of the business. Bombardier even offloaded some of its more well-known achievements, such as the Q400 and CSeries programs.

Bombardier's rail business is the next component to spin off. E.U. regulators today approved the sale of Bombardier's rail business to France-based **Alstrom**. With that approval, the whopping US$8.2 billion deal signed back in February looks set to proceed. Of that amount, Bombardier is set to receive proceeds of US$4.2 billion. That financial injection will be used to pay down debt and invest in Bombardier's aviation business.

So far in 2020, Bombardier stock has dropped well over 70%. Does this make Bombardier a buy knowing that a multi-billion-dollar parachute is coming? Not exactly, and here's why: Bombardier's remaining aviation business is based on its Global Express program, which has a full order book. The problem with that is Bombardier's deliver schedules frequently are missed, and the COVID-19 pandemic has made reduced demand for air travel, even on luxurious corporate jets.

In other words, while Bombardier is a highly discounted stock at the moment, it might be too risky for most. Fortunately, there are still far better highly discounted stock options on the market.

Can you bank on this stock?

Canada's big banks are some of the best long-term options on the market. Apart from offering a solid dividend, the banks run highly regulated yet lucrative businesses. When the pandemic hit, the big banks reported weaker financials as loan-loss provisions soared. This was expected, and so too was the gradual clawback that the banks have made since March. Interestingly, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) remains an interesting and still highly discounted stock pick over its peers.

One of the reasons for investing in Bank of Nova Scotia over its big bank peers is Scotiabank's exposure to international markets. This move offsets some of the risks from a long-expected recession in Canada as well as the U.S. market, where Scotiabank's peers expanded. In contrast, Bank of Nova Scotia expanded into the Latin American markets of Mexico, Chile, Peru, and Columbia. The four nations are part of a trade bloc that is charged with bettering trade and reducing tariffs.

In terms of performance, the bank is still down well over 20% year to date. This makes Bank of Nova Scotia an ideal option for investors looking for highly discounted stocks. Adding to that appeal is Bank of Nova Scotia's dividend, which coincidentally paid out this week. That attractive yield currently stands at an insane 6.45%, and Scotiabank has been rewarding shareholders for well over a century.

Final thoughts

No investment is without risk, and the COVID-19 pandemic taught us this lesson. The other lesson investors have learned recently is that these market events can expose opportunities to buy some highly discounted stocks. While Bombardier may no longer be the promising long-term investment it once was, Bank of Nova Scotia remains a stellar long-term option.

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