This Value Stock Is a “Screaming Buy” Right Now

Description

If you want to improve your chances of scoring market-beating results consistently over the long term (a challenging achievement, even for investment pros), you need to be willing to temper your emotions and buy the stocks that nobody else wants to buy at any given instance.

The stocks within industries that are viewed as “untouchable” by most others are typically where the most significant value opportunities lie. But that doesn’t mean you should put money on the most beaten-up stocks with little consideration for the quality of the business and its long-term trajectory.

While you could make big bucks by betting on cigar-butt stocks like Warren Buffett used to do early on in his investment career, it’s far more prudent to take a page out of Buffett’s current playbook by buying *wonderful* businesses at discounts, rather than scooping up any company that’s trading at a discount.

If you want to strike it rich over the long run, you should seek to invest like Warren Buffett

You should be a buyer of high-quality business that happens to trade at a discount. Otherwise, you may unknowingly run the risk of paying for a stock of a company that rightfully deserves to be discounted. Heck, it may not be discounted enough as you may think, and if that ends up being the case, you could lose big money despite a stock’s “cheap” and seemingly discounted traditional valuation metrics.

By sticking with reliable businesses that are out of favour, you’ll be better able to avoid extremely financially-distressed firms, businesses in severe secular decline, and other value traps that may not truly be entirely discounted.

This piece will have a look at two wonderful businesses in extremely out-of-favour industries that have stocks that I believe are heavily discounted relative to the calibre of business you're getting. While they are facing severe COVID-19 headwinds, I'm in the belief that they'll ultimately overcome them overtime.

Without further ado, consider shares of battered Canadian insurer **IA Financial** (TSX:IAG), which took way too big a hit on the chin amid the COVID-19 crisis.

Trading at a nice discount to book value

IA is an underrated insurance play that's typically sported a yield that's far lower than that of its peers (IAG sports a 4.2% yield at the time of writing). The company has a terrific management team that acknowledges that its industry can be cyclical. That's a significant reason why the company has maintained a high degree of financial flexibility by not overextending itself with a lofty dividend commitment, even when times are good.

With rates at rock-bottom (and potentially on the cusp of going negative for the first time in history), the financials face potentially long-lived headwinds. IA's management has taken steps to reduce its sensitivity to interest rates, though. And because of such efforts, I believe, IA will be better able to navigate through these tough times relative to most other non-bank financials.

For now, dividend hikes are off the table. And IA's exposure to subprime auto may be a cause for concern, as this pandemic continues dragging on. With shares trading at a 12% discount to book, though, I'd say IA's sore spots are worth forgiving if you're looking for a big bargain that could pop as the economy recovers from this crisis.

CATEGORY

1. Coronavirus
2. Dividend Stocks
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TICKERS GLOBAL

1. TSX:IAG (iA Financial Corporation Inc.)

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