This Canadian Bank Stock Could Make You Filthy Rich in an Upside Correction

Description

Corrections can go both ways. Many value stocks are still in the doghouse following the coronavirus crash. Many such stocks are eagerly awaiting the arrival of an effective coronavirus vaccine before they can sustain a massive move higher. Once a medical breakthrough happens, many COVID-19 hit value stocks will likely have Mr. Market's permission to rally to (and potentially above) pre-pandemic highs.

While it's tempting to chase momentum by going after the first-half winners amid this pandemic given that nobody knows when it will end and what the endgame will entail, it's a wiser idea to take a page out of the Great One — Wayne Gretzky's playbook — by skating to where you think the puck is headed next, rather than looking to where it's at right now.

Where could the puck be headed next?

In the investment world, the greatest rewards come to those contrarians who are able to spot where the puck will be headed next. Of course, it's impossible to tell with any degree of precision where the biggest opportunities lie unless you've got a crystal ball handy. But if you're like me and think the next leg of the rally will be fuelled by those heavily out-of-favour "value" names as the economy inches closer to normalcy, consider the following two bruised stocks that could hold the potential to lead the stock market's next upward charge.

Canadian bank stocks crisis-level valuations probably won't last once this crisis ends

When the economy is doing well, Canadian banks such as **TD Bank** (TSX:TD)(NYSE:TD) tend to profit profoundly, offering its investors generous dividend hikes alongside a good amount of capital gains. When the economy is in a shambles, with interest rates near zero, the Canadian banks are in an environment that puts them between a rock and a hard place.

Loans start souring, and if loan-takers become unable to meet their debt obligations, it’s the banks (and bank shareholders) that stand to be left holding the bag.

TD Bank is known as a premium Canadian bank with very high-quality earnings growth. Similar to its peers, TD Bank got caught offside amid the coronavirus crisis. And while the effects of this crisis could have severe longer-term consequences, I’m still of the belief that TD Bank is a premium bank that deserves a premium multiple relative to its brothers in the Big Five basket.

Yes, swollen provisions for credit losses (PCLs) and thinner margins make for a risky, low-upside bet amid a worsening pandemic. Given how low the bar has been set, however, there’s plenty of upside to be had in the name, especially when you consider that management has the talent to buck the trend and persevere through macro headwinds.

Today, TD stock trades at a crisis-level discount that I don’t think will be around once this pandemic subsides.

The Foolish takeaway on TD Bank and the Canadian banks

Rather than chasing what’s working in this unprecedented pandemic-plagued market, look to quality companies that have been feeling the full force of this crisis. It’s these names that will have the most upside once this horrific pandemic finally disappears into the rear-view mirror.

Nobody knows when the pandemic will end or what the long-term damages will be. But if you’re looking for a bargain that can provide you with potentially outsized gains over the next 10, 20, or 30 years, look no further than battered blue-chips like TD Bank.

Yes, they’re on the receiving end right now, but they won’t be forever. In the meantime, there’s a juicy 4.9% yield to collect.

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