September Pullback: Here's What I'd Buy and Avoid Right Now

Description

September is usually a terrible month for stocks. After one of the best Augusts for the stock market in decades, it does seem to be a tough time to deploy money in this pandemic-plagued market. The concerns don't just stop at the COVID-19 impact. Many are in the belief that the stock market is expensive and that a tech bubble may have become a side effect of the COVID-19 crisis.

Tech led us out of the depths of the February-March sell-off. Now, pandemic-resilient tech looks to be propelling us into the next market pullback. While there's no telling how severe this latest bout of selling will be, I'd encourage investors to stay the course and pick up one of the many bargains on the way down.

What I'd avoid amid in the face of September volatility

I'd steer clear of the first half winners that have more than doubled off their March lows. The recent correction may be nothing more than an appetizer for the main course, which may very well be up ahead.

In a prior piece titled "Is there a tech bubble that could burst in 2020," I shot down concerns that the stock market was due for a repeat of the 2000 dot-com bust but warned that chasing momentum would likely end in tears.

"While the recent tech-driven rally may be of concern to those who invested through the dot-com bust, tech stock valuations, in aggregate, aren't at the absurd levels they were in 1999. So, no tech stocks aren't partying like it's 1999. At least, not yet." I said.

"However, I do see pockets of severe overvaluation within the tech sector that are quite pronounced. For instance, the cloud stocks that have been riding high on pandemic tailwinds are looking dangerously frothy at this juncture. Some of the biggest tech winners over the past quarter now see themselves up well over 100% over the last few months.

Others have more than tripled… While pandemic tailwinds are undoubtedly worth a premium, I'm in the belief that many momentum chasers looking to the hottest tech stocks today are in danger of paying up for many years worth of growth right off the bat."

While I don't expect a broader tech sector bubble burst, I did see a more contained sell-off of the "biggest tech winners." Indeed, that's what we witnessed on Thursday. Nobody knows when this current bout of selling will be over. Given the still considerable amount of froth that still exists across names like **Tesla**, even after the latest sell-off, I'd say getting behind such names on a dip is a risky endeavour.

So, what would I buy amid the September turbulence?

White-hot tech stocks have dragged down the market over the past few days. Many value stocks were also unfairly caught offside amid the carnage, and I think it's these stocks that investors should consider scooping up. Consider **Onex** (TSX:ONEX), a cheap stock that took an uppercut to the chin on Thursday, pulling back 4% on the day, bringing the stock down around 27% from its 52-week highs.

For those unfamiliar with the name, it's a private investment manager that unfortunately scooped up WestJet before the coronavirus crisis. Indeed, the move was poorly-timed, as Onex ended up getting blindsided by the crisis. With Onex shares down nearly a third from its highs, though, I'd say the stock has already been penalized and is now a compelling contrarian pick for value investors looking to get the most bang for their buck.

Fellow Fool contributor Andrew Walker recently touted Onex as a better bet than **Air Canada** for those who wanted to benefit indirectly from a rebounding of the economy and the air travel industry. Walker is right on the money and would encourage investors to initiate a position on heavily out-of-favour shares of Onex while they trade at a near 20% discount to book value.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:ONEX (Onex Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus

2. Investing
3. Stocks for Beginners

Date
2025/08/18
Date Created
2020/09/04
Author
joefrenette