Is It Safe to Buy Cheap TSX Stocks This Fall?

Description

For a moment, picture 2020 as any other year. Imagine there was no pandemic. Now go and take a look at the **S&P/TSX Composite Index**. In the absence of a public health disaster, the performance of some of Canada's best blue-chip stocks would look disastrous. The harsh reality is that this situation could last longer than anticipated, with the prospect of a fully reopened economy receding as a second coronavirus wave looms.

Three top stocks to buy on the cheap

One thing remains little changed since the start of the pandemic: Value opportunities in qualities businesses abound. While valuations have improved since the nightmarish March selloff, many names are still in the red year-on-year.

Rogers Communications has lost 20% since this time last year. A combination of sidelined sports teams and dried up advertiser revenue have eaten into profits this year. Throw in lockdown-impacted roaming fees and 2020 has mounted a multi-front assault on Rogers' bottom line. Despite this, though, there is plenty for the quality-minded value investor to pick over with this wide-moat name.

Insurance stocks are particularly ailing, with wide-moat **Manulife Financial** down 30%. Insurers have found their business model under attack from a combination of broadly applicable destructive market forces with a swamp of force majeure claims. Investors were blindsided by the downside in top blue-chip names. The take-home is clear, though: Names like Manulife perform badly in a global emergency.

Energy stocks have also taken a battering. Energy usage was down during the depths of the lockdown, causing electricity prices to wobble. The case for hydrocarbons, already on the ropes, has suffered further this year. **Enbridge** is still down 23% year on year. Another wide-moat stock – this one among the widest on the TSX – Enbridge packs a rich 8% yield.

The other side of the argument…

The trouble with buying quality stocks for low prices is that, while they could come back stronger, these companies have already proven weak in an emergency. Should further emergencies transpire, therefore, names such as Manulife, Rogers, and Enbridge could prove unreliable. Investors – even those bullish on these names – may wish to reduce exposure to them.

Of course, for the sake of diversification, these names are still worthy of inclusion in a stock portfolio. But their importance should perhaps be reduced, and they should no longer be used as the backbone for a long-term wealth creation plan. Instead, investor should look to names that have proven resilient in the last 12 months.

Such stocks include **Franco-Nevada** – a solid choice for low-risk gold investing – which has climbed 38%. **Waste Connections**, having gained 14.5% year-on-year, satisfies an infrastructure growth strategy. **Constellation Software** has seen gains of 20% year on year, providing a lower-risk play in the tech growth stock space.

Investors should consider approaching knocked-down quality names as though they are speculative plays at the moment. Safe stocks are unlikely to be cheap in the current economic environment. While they're selling at a premium, the stocks that have performed well in 2020 are likely the safest as we head into fall and a new era of uncertainty beyond.

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