Market Correction? Get Ready to Buy Cheaper TSX Stocks

Description

A bull market might not have been the expected outcome from a pandemic during a U.S. election year. But Canadian investors are still snapping up equities like there's no tomorrow. The problem with bull markets is that they are prone to corrections. We've seen a few tech selloffs already — usually precipitated by positive vaccine news. There were also the coordinated **Tesla** and **Apple** stock splits that sparked widespread selling.

Another correction could be imminent, therefore. Stocks are straying well into overbought territory. Once again, the markets are losing their connection with the actual economy. This has been an ongoing issue in the latter half of the year. Investors might want to start drawing up their wish lists — along with buying and selling points. Stocks could be about to go on sale, with possible buying opportunities across the whole gamut of sectors.

Get ready to buy discounted stocks

Shopify is a classic indicator stock. It's like the World Wildlife Fund's panda logo. Like the WWF panda, Shopify symbolizes an entire ethos. It's a symbol to rally around. And to stretch the zoological analogy, Shopify's performance in the wild indicates the broader health of the tech stock ecosystem. The trouble with Shopify, though, is that so much of the last year's growth has been buoyed by a (hopefully) reversible situation.

We've already touched on the vulnerability of tech stocks to vaccine breakthroughs. But the return of deeper-seated uncertainties could rock other at-risk sectors. Go back and look at insurance, banking, energy, and retail to start with. These are areas that got comprehensively walloped by the pandemic, shaking up classically defensive asset classes and rearranging the bedrock of low-risk stock investing.

One top TSX stock to build on weakness

All of this makes Big Five stocks such as **Scotiabank** (TSX:BNS)(NYSE:BNS) all the more appealing from a contrarian point of view. At a glance, Scotiabank is a strong all-rounder of a dividend stock. For passive-income investors, a 5.2% dividend yield is rich enough. A payout ratio of 66% is indicative of a healthy multi-year pick with the potential for dividend growth. Selling at a discount of 11% off fair value, Scotiabank is also fairly cheap.

But the value thesis for buying this Big Five banker could be about to get even stronger. Look at its price momentum stats for the year. While Scotiabank has seen an encouraging 23% share price growth in the last three months of trading, this name is still negative by 8% for the year. The past week has seen growth of just 1%, despite a fairly positive recent earnings season for Canadian banking.

In summary, there could be plenty of chances upcoming to buy in stages, as market forces erode share prices. As we saw with the Tesla/Apple splits, selloffs can be contagious in the currently hyper-charged market. Corrections are to be expected in any bull market. But the current situation is far less predictable than in previous years. That means that the inevitable correction is likely to be marked by high volatility.

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