Buying Ahead of a Correction: 1 Cheap Stock in an Expensive Market

Description

Stop me if you've heard this one too many times: we're overdue for a stock market correction. Many sell-side analysts, pundits, billionaire money managers, and all the sort have been ringing the alarm bell for many weeks now, and yet stocks continue to surge higher.

While the markets may be frothy, with valuation metrics that are skewed heavily towards the higher end of the historical range, I'd discourage panicking or hitting the "sell" button furiously at this juncture, as shares of your favourite companies could continue to roar for weeks, if not months before the next sell-off that almost everybody is expecting at this juncture.

Market correction or not, you shouldn't alter your long-term strategy too much!

Market plunges tend to happen when we least expect it, not when everybody is ringing the alarm bell. And that's probably why this market may have more room to run before its next big stumble. The demand for puts relative to calls has steadily crept higher in recent weeks. Such an increase in put-buying activity, I believe, indicates that investors are anticipating a near-term market correction.

While there is a speculative frenzy going on in the background, with the fearless investors at popular subreddit WallStreetBets going YOLO (you only live once) on risky short-squeezing plays and other meme stocks and assets, I don't think it's wise to conclude that such a sideshow has driven the stock market to bubbly heights, warranting a devastating stock market crash.

We very well may be headed for a correction, but you need not fear, as any such plunge will likely prove to be a massive buying opportunity for patient investors who are ready to pounce. Don't fear a correction; embrace it. If you've got more than enough dry powder on the sidelines (like Warren Buffett), you should actually hope that Mr. Market pulls the rug from underneath investors.

The stock market looks expensive on many metrics, but what if

the sell-side analysts aren't bullish enough?

Although I still believe you should buy any bargains you spot, regardless of what others think will happen to the markets next, I would also look to get a shopping list of "pricey" stocks that you'd be more willing to pick up on a pullback. Many 2021 **S&P 500** price targets of the big banks (the median of the U.S. banks is 3,800, I believe) have already been surpassed in the first month of the year. If you're a believer in such price targets, year-ahead returns in the red seem to be likelier, even with the pandemic's end now in sight.

In prior pieces, I've noted that if a terrible year like 2020 can be a green year for the stock market, the reverse could also be true. Just look back to 2018 — a brutal year for markets, despite the Trump administration's corporate tax cuts, which were a major positive.

So, do stay the course and anticipate a correction with cash on the sidelines, but don't try to time it or take rainchecks on the bargains you do see in today's market, because if they're genuine bargains, they'll probably be more likely to hold their own once volatility returns.

Fortis is a top bargain in a pricey market

Today, I like **Fortis** (TSX:FTS)(NYSE:FTS) stock and its stable 4% yield. Most investors have rotated into riskier assets, leaving popular bond proxies for the dust. While higher rates over the long run do not bode well for utility plays like Fortis, I still think they should comprise a chunk of your portfolio before things get ugly again. Fortis is one of the best bond proxy plays on this side of the border, and it's discounted due to reasons outside the firm's control.

Come the next correction, Fortis can keep your portfolio buoyed above water, allowing you to keep your cool as you go on the hunt for the greatest bargains.

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