Got $500? 1 Undervalued TSX Stock to Turn Into $1,000

Description

If you've got an extra $500 just sitting around in your Tax-Free Savings Account (TFSA), you should look to put it to work on undervalued **TSX** stocks as soon as you can, rather than letting it collect dust, as you wait for the amount to grow to some large arbitrary sum, or worse, waiting for 2022, a time when you'll be able to top-up your TFSA with another $6,000.

You don't need thousands of dollars to purchase shares of undervalued companies. If Mr. Market throws a pitch in your strike zone, swing at it with whatever amount you've got to invest. Sure, Warren Buffett says that investing is a game with no-called strikes, but eventually, you'll get balls called against you if you refuse to swing at properly-thrown pitches.

Investing small sums of TFSA cash

Depending on your discount broker, you may have to pay a percent or so in commission. If you're lucky enough to be a Canadian that's able to purchase securities with $0 commissions, then you're strongly encouraged to put it to work today, as we inch ever so closer to one of the greatest economic recoveries in history.

In this piece, we'll have a look at one severely-undervalued deep-value stock (the type of battered plays that bold, venturesome deep-value hunters like Prem Watsa or Dr. Michael Burry look for).

The undervalued TSX stock, I believe, will give you a good shot to turn your $500 into $1,000 or more over the coming 18 months. So, without further ado, let's have a closer look at each play to see which is most worthy of investing with your $500.

A great TSX dividend stock for deep-value investors

IA Financial (TSX:IAG) is one of Canada's most underrated insurers. It has one of the lowest dividend yields in the Canadian financial scene, currently standing a mere 2.8%. Last year, when the stock collapsed, I noted that the company more than made up for its lack of yield with its prudence and its hot wealth management business.

The business of insurance can be fickle and management's prudence through good times and bad are a major reason why shares of IAG were among the first insurers to recover from the Great Financial Crisis.

IA one-upped itself during the Great Coronavirus Recession, almost fully recovering from its 2020 peak in just over a year. Today, the stock is off 8% from the top but over 88% off the bottom. The "steal" and opportunity to lock-in the swollen dividend yield has come and gone. But I still view shares as being absurdly undervalued, given the favourable rising-rate environment that's lying just ahead. Higher rates bode well for the insurers like IA, and the recent savings boom could also give the firm's wealth management business a major jolt.

With such tailwinds factored in, it becomes more apparent that IA stock is still undervalued, even after nearly doubling in a year. The stock trades at 8.9x forward earnings and just 1.2x book value. That's stupidly cheap.

Foolish takeaway

While $500 may seem like too little to invest, with such a deep-value play like IA Financial, I'd argue that it's far better to swing at the play if you've got a good chance of knocking one out of the ballpark. Given the favourable stage set ahead of the insurers, especially those that are well run like IA, count me as unsurprised if they lead the TSX Index higher over the next few years.

Sure, the Fed isn't "thinking about thinking about" raising rates until 2024. But at the end of the day, the Fed can't fully control everything. They can't be right every time, and they have to maintain their credibility in the face of potentially larger-than-anticipated inflationary pressures. I think you've got to listen to what the bond market is saying and punch your ticket to a great insurer like IA Financial before the price of admission goes up, perhaps way up.

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TICKERS GLOBAL

1. TSX:IAG (iA Financial Corporation Inc.)

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