2 Cheap Canadian Stocks to Buy on Strength in July 2021

Description

Catching a falling knife can be a dangerous feat, especially if you reach out with a considerable amount of capital with the intention of grabbing a full position at once. It's tough to tell when a name has bottomed. Fortunately, investors don't need to try to time a bottom in a plunging stock — a virtually impossible feat.

Rather, investors should seek to average down or average up so that one's cost basis will average a level that may be near the bottom. Indeed, dollar-cost-averaging can be a great strategy for many beginner investors who want a way to combat rampant volatility. While buying on the way down is a more common strategy, I personally prefer buying on the way up. Still, buying on strength is no guarantee that the bottom is in the rear-view mirror. That said, by having a glimpse at the technical picture, you can improve the chances of minimizing your damage when it comes to fast-falling stocks.

Undoubtedly, the fundamentals matter most. So, if you're looking at a stock that's trading at a market price that's considerably lower than your estimate of its intrinsic value, it really won't matter as much if you're buying on the way down or the way up in the grander scheme of things.

In this piece, we'll have a look at two great Canadian stocks that are fresh off brutal plunges but have shown signs of recovering.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is one of my favourite Canadian energy producers to pick up right now. Shares are riding high for months now, up around 95% from their $15 bottom hit late last year. Still, the stock looks severely undervalued, with shares trading at just north of a 20% premium to its book value. Moreover, the improving industry environment, I believe, makes Suncor stock's risk/reward look even better than it was back in the depths of last year.

WTI prices are a heck of a lot higher than they were even in the year preceding the coronavirus crash. Such an environment bodes well for Suncor's longer-term prospects. In a way, you get to view Mr. Market's hand at this juncture before you place a bet. While the price of admission is undoubtedly higher, I still think shares have room to run, as the company finds itself at the intersection between momentum and value.

The stock is still off 35% from its 2020 high. But I think the pain is now in the rear-view mirror, giving investors a great chance to buy on the way up.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a midstream energy play that's been battered in recent years. Like Suncor and most other commodity plays, I'd much prefer paying up a higher multiple to buy on strength rather than weakness. WTI and other commodities are unpredictable and cyclical. Buy on the way down, and you could risk holding the bag for the duration of an entire market cycle. Buy it in the early innings of a market expansion, and you could profit profoundly from the cyclical upswing.

With increased demand for energy, Enbridge finds itself in a great spot after years of dragging its feet in the tough industry environment. The dividend yields a juicy 6.7%, making it one of the most bountiful ways to lock in a huge yield alongside a shot at amplified gains in a continued rally on the back of an economic recovery.

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Author
joefrenette