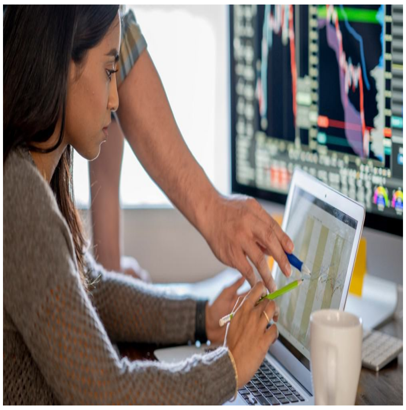

3 Cheap Bets With Great Odds

Description

When the market is strong and businesses are thriving, the asset pool, which contains undervalued yet promising stocks, is relatively smaller. However, if you combine it with the pool of “discounted stocks,” that is, those trading at a significant discount to their recent peaks, you might have access to a lot more assets. With more options available, your chances of finding a winner are relatively high.

There is another benefit of making “cheap bets,” however. Even if the stock is not a grower per se, you might still see some capital appreciation thanks to the recovery trajectory/momentum of the stock.

An undervalued stock

United Corp (TSX:UNC) is a Toronto-based company with a market capitalization of $1.29 billion. It has been around since 1929 and is a closed-end investment corporation with net assets of about $1.68 billion and a management expense ratio of 0.75%. As per the company, its shares have traded at a 15% to 40% discount from its net asset value for the last decade.

The company has outperformed the **S&P/TSX Composite Index** by a significant margin in the last 10 years, but not the **S&P 500 Composite Index**. It’s currently trading at a price-to-earnings of about three and price-to-book of 0.6 times, making it an attractively undervalued stock. And even though the company might offer some capital appreciation, it would require a holding period of decades, not years.

A renewable energy stock

Renewables are the next big thing, which makes stocks like **Innergex Renewable Energy** (TSX:INE) attractive thanks to the nature of its business. But another reason to consider this stock is its massive fall from the yearly peak. The stock is trading at a 30% discount from its peak valuation and is already showing signs of growing out of the slump.

It’s quite expensive from a valuation perspective, but if you consider the fact that thanks to its current slump, the stock is again in line with what its valuation trajectory would have been if the market crash and subsequent recovery didn't throw it off tracks, the stock looks ripe for buying. The recent fall has also grown the yield to a more attractive number of 3.2%.

An industrial equipment company

Another company that has fallen hard from its after-crash peak is **Ritchie Bros Auctioneers** (TSX:RBA)(NYSE:RBA). The stock peaked in Nov 2020, and it's now down 24% from that price point. It's not as overvalued as INE, but it's still relatively expensive. It also comes with the title of dividend aristocrat and has grown its dividends for 18 consecutive years.

As the world's largest auctioneer of heavy equipment and truck, RBA has carved a big piece of a niche industrial market for itself. The company has been in business for over six decades and has catered to over 10,000 customers. They sell machinery and equipment from some of the most well-known names in the heavy equipment industry, including CAT.

Foolish takeaway

Not every undervalued or discounted stocks are worth buying. Sometimes, the stocks fall, never to rise again to their peak valuations. But on other occasions, a discounted stock is primed for a powerful recovery, enough to add some decent capital appreciation to your portfolio. Your goal is to find the winners in the bear market.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RBA (Ritchie Bros. Auctioneers)
2. TSX:INE (Innergex Renewable Energy Inc.)
3. TSX:RBA (Ritchie Bros. Auctioneers)
4. TSX:UNC (United Corporations Limited)

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