1 Canadian Stock That's So Cheap, it's Embarrassing

Description

Mr. Market doesn't make pricing mistakes on Canadian stocks often, but when he does, investors should be ready to take advantage of such blunders. At any given instance, there may be a handful of stocks priced well above or below their true worth (their intrinsic value).

Mr. Market can make mistakes, too!

Names that are priced above their intrinsic value are overvalued and make for tempting shorts, but it's the names that are priced below their intrinsic value that investors should be watching closely. Shorting stocks isn't for everybody. In fact, only seasoned investors should dare bet against any stock. Some of the greatest investors of our time just refuse to bet against stocks, no matter how overvalued they seem.

Why?

When you go long a stock, the worst that could happen is you lose your entire invested principal. When you short a stock, there's no telling how bad things can get. Your losses could be unbounded. And in the event of a short-squeeze trigger by Reddit's WallStreetBets, there's no telling how much pain you could unknowingly be signing up for.

As such, instead of looking to act against Mr. Market's overpricing of stocks (there are many in today's frothy stock market), it's a more prudent idea to bet on some of the less-loved, undervalued stocks that provide a far better risk/reward tradeoff. Moreover, if a short squeeze strikes, you'll be on the right side of a trade rather than in a world of pain.

Which stocks are embarrassingly cheap these days?

On the **TSX Index**, there are many. You just have to be willing to look to the names that have been fading into the background rather than chasing the high-momentum plays that are mostly responsible for the market's epic 2021 rally.

And in this piece, we'll have a look at one that strikes me as an absolute pricing blunder made by Mr. Market.

So, as the stock market marches steadily towards new highs, without a 10% correction in over a year and a half, playing it safe with dirt-cheap value stocks is only prudent. That way, you'll stand to benefit from the feast of gains in an upside correction without having to feel the full force of indigestion come the next inevitable market correction.

Without further ado, consider **Fairfax Financial Holdings** (TSX:FFH), an insurer and holding company managed by the one and only Prem Watsa, a man we know as the Canadian version of Warren Buffett.

Fairfax Financial

Fairfax is arguably one of the best contrarian stocks to stash in your portfolio these days. Prem Watsa is famous for making bold bets either for or against trends or ideas he truly believes in. And unlike most investors, who may be quick to give up on an underperforming stock, he'll hang on until his thesis plays out or if it changes for the worst.

Undoubtedly, Watsa's investment style is not for everyone. Fairfax outperformed in the 2008 market crash, only to miss out on the big market rally in the years following. Most recently, Fairfax fell into a slump which was exacerbated by the COVID-19 pandemic. Year to date, Fairfax has been climbing back, but the stock still trades at a compelling discount to my estimate of its intrinsic value. Still off 12% from its 2020 pre-pandemic high, Fairfax is a bargain. And its low correlation over the long haul, I believe, makes the name a terrific backstop come the next inevitable downturn.

Don't doubt Watsa's abilities amid the latest slump. He's a man who can generate alpha over the long run. In the meantime, there's a 2.3%-yield dividend to collect while you wait for the ship to turn around.

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Date
2025/07/26
Date Created
2021/08/31
Author
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