1 Top Deep-Value Stock to Buy After the Market's "Half Correction"

Description

The **TSX Index** is back to its old ways. Now back in rally mode, investors who stuck in through the bout of September volatility may be in a spot to benefit from a potential market melt-up. Undoubtedly, pundits on the Street were oh-so-confident that a market correction (a 10% drop) was inevitable by year's end.

Although the **S&P 500 Composite Index** flirted with a 5% drop, it looks like the "half correction" may be the most we'll get until the next negative surprise. Indeed, the Evergrande contagion had the potential to trigger a 10% drop in global markets. Heck, we even heard that a 20% bear market plunge was possible. Now that markets have bounced off the near-5% dip in the back half of last week, all the correction calls seem to have been replaced with more bullish estimates, calling for even more gains in 2021 and 2022.

As an investor, it's hard to know what to make of all the back and forth between the bulls and the bears. Indeed, many folks on the Street are inclined to change their viewpoint after recent market moves. And although big bank forecasts may nail a correction call in the future, investors shouldn't place their bets on such near-term forecasts.

Mr. Market acts in an incredibly unpredictable fashion, and there are far too many things that can make him panic. And whenever he does hit the panic button, marking down stock prices, investors need to be ready to buy on the day of. Because as we witnessed on Tuesday and late March of 2020, you don't have much time to get your emotions in check. Either you buy when there's fear on the Street, or you may not get the biggest bargains in any given sell-off.

Is market volatility easing?

Although it seems like the Evergrande contagion has been shrugged off by markets, it's still really hard to gauge just how much systematic risk will come forth from Evergrande. Undoubtedly, Chinese stocks have been under accelerating amounts of pressure lately. But will it spread to your portfolio if you're mostly overweight North American equities? It's hard to tell. But investors need not worry yet.

Moving forward, we'll have more surprising negative exogenous events that will strike fear in Mr. Market's heart — potentially something far more horrifying than the Evergrande contagion. Nobody knows when, but such negative surprises can and likely will happen. Investors need to be ready, but they need not over-prepare. What qualifies as over-preparedness? Hoarding way too much cash with the expectation that you'll perfectly time the next market-crash-causing event. With inflation likely to stick in the 3-6% range for further quarters, the "harmless," even prudent act of hoarding too much cash could become less benign, as inflation works its wealth-deteriorating effect.

Don't hoard "too much" cash — insist on defensive dividend payers

Instead of hoarding cash, there are great defensive stocks to buy. Most notably, names like **Emera** (TSX:EMA). Emera is a regulated utility that's seen its regulated mix increase over the years. As a result, Emera's already robust operating cash flows are becoming even more robust. When it comes to playing defence in the utility space, a higher degree of regulation means a higher quality of earnings, less volatility, and more predictability with a company's dividend growth policy.

Moving forward, Emera stock is poised to command a richer premium, especially if the next negative surprise shocks the markets. But, of course, you'll need to punch your ticket beforehand to get most of the protection and a richer yield (currently at 4.4%). For now, Emera stock is rather uneventful.

But at a decent valuation, I'd argue it's one of the better ways to play defence today, as investors feel more inclined to let their guard down after the Fed's latest speech.

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