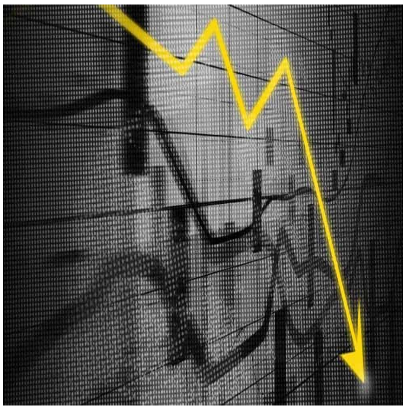

2 Value Stocks That Have Already Plunged Over 20%

Description

Don't let the recent bout of volatility scare you from doing any buying or steer your long-term investment plan off course. The recent pullback has been a long time coming. And for that reason, this downturn feels more painful. Many investors have gotten too used to smooth sailing. Now that the market waters have become choppy again, certain investors may be inclined to abandon ship. It's not just the lack of broader market volatility that makes this recent half-correction (5% drop) feel so terrible.

Under the hood of the **TSX Index,** there have been sector-based sell-offs and rotations. With the recent surge in the 10-year rate, bonds and deep-value stocks with handsome payouts are slightly more attractive than all those high-multiple tech stocks that have been so strong since rising out of the depths of the 2020 market crash.

Still, bonds remain unrewarding as ever. A 0.25% rise in the 10-year note is less meaningful versus the 4-5% rate of inflation. If you've been waiting for a pullback, here it is. While the TSX is down just shy of 5% from all-time highs, many names underneath are already in a correction. Some are in a bear market, while others are close to losing half of their value.

To get such value stocks, though, you'll need to look to the hardest-hit areas of the market to the sectors that nobody else wants to be. Indeed, it can be tough to get behind names within industries that are unsexy. But the key to above-average returns may lie within such decimated areas of the market.

Without further ado, consider **Badger Infrastructure Solutions** (TSX:BDGI), down 23% from its high, and the **BMO China Equity Index ETF** (TSX:ZCH), off 48% from its high.

Badger Infrastucutre Solutions

Badger stock has had a tough year, currently sitting down just shy of 5% year to date. Despite the favourable macro backdrop, the company has struggled to get margins where they need to be. Following a brutal second quarter, many analysts turned their back on the name, but I think thingscould change as soon as the second half of 2021.

The company has a rock-solid balance sheet and enough resilience to make it through COVID headwinds. On the other side is a favourable environment, and if management can improve upon its margin shortcomings, there's no telling how much higher the name has to run from today's depressed levels.

Management pointed to improving revenues in the last two months of summer. Could the next quarter reveal a big, needle-moving beat? I'd say it's plausible, especially given the depressed valuation. The infrastructure play trades at 2.4 times sales, which implies a nice margin of safety.

The ZCH

For those looking for greater upside, BMO China Equity Index may be the better bet. Fresh off a nearly 50% collapse, Chinese equities are looking to form a bottom and stage a comeback amid continued government-induced pressures. While President Xi Jinping could certainly bring forth much more pain in some of the most popular U.S.-traded Chinese ADRs, I do think there's a compelling contrarian case for getting in here.

Many big money managers have left the China trade. With much fear surrounding the previously-loved ADRs, investors may be inclined to get greedy with the broader basket of Chinese equities. For Canadians, the ZCH seems to be one of the better ways to go. While the risks are high, so, too, are the rewards.

If you're comfortable surrendering your ability to time the Chinese government's next course of action, only then would I suggest getting in, even after a near-50% drop.

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1. Investing

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