



2 TSX Stocks to Buy Immediately if the Market Pulls Back

Description

The S&P/TSX Composite index has been on an incredible five-year bull run. Barring a few minor corrections in 2018 and the COVID-19 crash of February 2020, the index has posted a 11.45% CAGR since January 2016. Investors have enjoyed juicy gains, led by outperformance in the Canadian technology and banking sector.

However, with such great prolonged performance, the [prospect of a market crash](#) is starting to live rent-free in investors' minds. Recent inflationary fears, the new Omicron COVID variant, and the Bank of Canada's anticipated rate hikes have spooked investors, causing them to shed risky assets over the last week. The index slid nearly 5.31% during the week of November 25 to December 1 as a result.

Despite this, the index is full of great companies, many of which have strong revenues, earnings, and profits, healthy balance sheets, and good cash flow and reserves. Today, I'll be discussing two companies that have the potential to weather a crash and pose an excellent buying opportunity when the stocks drop sharply.

Brookfield Asset Management

Brookfield Asset Management ([TSX:BAM](#))([NYSE:BAM](#)) has been called "The **Berkshire Hathaway** of Canada," owing to its strongly diversified holdings, excellent track record of profitable operations, and great returns on its stock. As Canada's largest alternative asset management companies with over \$600 billion AUM, it controls numerous interests in real estate, renewable power, infrastructure, and private equity through its subsidiaries.

The stock is currently trading at \$73.46 and has returned 46.65% YTD. It currently trades at a P/E of 26.40, a P/B of 2.31 a P/S of 1.33, and a P/CF of 10.70. These metrics indicate that the stock may currently be overvalued, especially after such a great run-up year to date. However, Brookfield has ample cash reserves and a profitable business, having weathered and recovered from the COVID-19 crash very well. In the event of a market pullback, the stock may fall to a valuation more reasonable for a buy.

Constellation Software

Constellation Software ([TSX:CSU](#)) is one of Canada's technology industry juggernauts. The stock has been an absolute heavy hitter over the last five years with a cumulative return of 270.45% and 33.25% YTD. As a diversified software company, it has consistently been able to execute its strategy of acquiring and holding smaller software companies long term. It boasts customers in both the private and public sectors in industries including healthcare, education utilities, construction, energy, and financial services.

Like the rest of the sector, from a fundamental perspective, the stock looks overvalued. Constellation Software currently has a P/E ratio of 114.50, P/B ratio of 37.23, and a P/CF ratio of 27.60. However, the company is profitable and managed extremely well, with a ROE of 34.84%, ROA of 7.03%, and EPS of \$20.59. As of the last quarter, the company has nearly US\$961 million in cash on the balance sheet. A market correction could provide a great entry point for this stock, as its fundamentals would likely be unaffected and could rebound over time.

The Foolish takeaway

Times of crisis in the market often cause investors to ditch risky growth stocks in favour of safer assets such as bonds and dividend stocks. However, market pullbacks can also provide great buying opportunities. Keeping a watchlist of companies with strong fundamentals that are presently overvalued can be an excellent way to generate alpha during a correction.

While the stock price of these companies may fall along with the rest of the market, their fundamentals will likely remain unchanged. Thus, the lower stock price would reflect a more attractive valuation and buying opportunity for the savvy investor. Savvy investors should consider adding Brookfield Asset Management and Constellation Software stock to their investment portfolios in such a circumstance.

CATEGORY

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2. TSX:BN (Brookfield)
3. TSX:CSU (Constellation Software Inc.)

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Date

2025/09/14

Date Created

2021/12/11

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