2 Red-Hot Passive-Income Stocks to Buy

Description

Indeed, Warren Buffett's boring strategy of buying and holding cheap free cash flow-generative companies at considerable discounts to their intrinsic value is finally paying off. The "buy sexy stocks at any price" trade has reversed violently. Indeed, many smart investors saw such a tech wreck or tech correction coming from a mile away. While the growth and tech-driven meltdown is not yet comparable to the dot-com bubble burst of 2000, I think that the damage concentrated in tech should have many momentum chasers re-evaluating their portfolios to get better diversification.

Undoubtedly, nobody wants to make drastic shifts with their portfolio after the fact. Who knows? Most of the damage to tech stocks may already be in, making them intriguing buying opportunities today. But looking back to 2000, it was a tough road for the sector in its recovery. And it's really hard to tell what investors should expect as their fastest-growing, most expensive growth stocks free fall deeper and deeper into the abyss. Given that they're hard to value, unless you know how fast rates are going up this year, they're not right for everyone. That said, young, ready, and willing investors with a stomach for 50% drops should not feel hesitant in dipping a toe in the growth waters right here and now. They've got many years (or decades) to make up for it, after all.

In this piece, we'll look at two boring value stocks that are getting cheaper as they rise. They've got momentum behind them and are intriguing additions to any tech-overweight portfolio that wants to get in on the moment boring becomes beautiful.

IA Financial

IA Financial (TSX:IAG) is arguably one of the lesser-loved insurers in Canada, likely because its yield is lower on a relative basis at just 3.2% at writing. It is one of the best managed, however. And for that reason, I believe shares deserve to trade at a premium to its peer group rather than a discount. However, IA's growth profile isn't nearly as exciting as some of its bigger brothers.

IA stock is up 36% over the past year, with 7% of the gains coming year to date! The stock trades at 10.7 times trailing earnings with a well-supported dividend that's likely to grow at a solid rate moving forward. Indeed, financials have been dragging the market down for quite a while now. With the tides turned and rates with value heading higher, I continue to favour IA and plays like it. It's a wonderful business that did a fine job of navigating the last crisis relative to its insurance brothers.

Yes, there's momentum behind the boring stock. But the stock remains dirt cheap, and it's unlikely to be a value trap, given the stage that's set so favourably before it. My takeaway? I'd watch the name very closely.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) has been an absolute Dividend Stud this past year, rocketing around 50% over the past year with 6% of the gains coming year to date. Indeed, BMO stock looked like your average sexy play back in mid- to late 2020. It's soaring, and it's not looking back. All the while, the fundamentals and landscape have improved, supporting the rally in the stock. I'd argue that the long-term prospects are still underrated and that the stock remains a bargain, even as it's powered higher.

Bank of the West is an intriguing play that I think will pay off in a huge way, as banks look to lead the charge in 2022 and beyond. Under BMO's leadership, Bank of the West is a far better company in my books. Although the price paid could have been cheaper, I still think BMO will realize solid synergies from the deal that will be realized over time.

Gone are the days where BMO was among the most unloved of its peer group due to its oil and gas exposure. Now, commercial banking is roaring, and the oil and gas field is booming. How the tables have turned! At 12.7 times trailing earnings, BMO is a boring but beautiful stock to consider.

CATEGORY

1. Investing

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3. TSX:IAG (iA Financial Corporation Inc.)

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