1 Incredibly Cheap Financial Stock to Defend Against a Bear Market Moment

Description

Dividend stocks are great places to be in these days, with inflation surging to scorching highs and the rising volatility that's proven too much for some. Indeed, the S&P 500 could test bear market territory (that's a whopping 20% decline from peak to trough) in as little as a few months, at least according to some bearish pundits on Wall Street.

Could it be that we're already in the early innings of a bear market? Indeed, a lot of negativity is baked in, but I don't think a bear market moment is the likeliest scenario. Still, that does not mean you should not be prepared for one. A smart, prudent investor should always be prepared once the bear emerges from his cave.

While cash is the best thing to have for when a bear market arrives, you'll be punished at the hands of inflation for doing so. That means you need to decide on the optimal cash allocation, so you'll be able to take advantage of opportunities when the bear market arrives but will not put yourself in a spot to lose considerable purchasing power if no bear market strikes and inflation stays hot.

Saving vs. investing amid turbulence and inflation: Investors should find balance!

With Canadian inflation at nearly 7%, you're essentially looking at a big loss if you're saving and just waiting for the bottom in the market. Yes, smart people at the big banks may claim they know what's going to happen next, but they really don't know for sure. Rates are moving higher. That's a given. Now, they could rise faster than expected. The Bank of Canada could raise by anywhere from 50 bps to 100 bps. The latter would be a shocker, while the former would probably not be meaningful to broader markets, given such a half-point hike may already be anticipated.

In any case, dividend stocks seem like a worthy middle ground. They won't soar once tech bottoms, but they also will help you stay ahead with their juicy yields and lower relative volatility.

In terms of dividend payers, I prefer dirt-cheap plays like **IA Financial** (TSX:IAG). The high-yield stock boasts a single-digit price-to-earnings multiple, which, I believe, makes no sense, given the value trade ought to be hotter given the numerous risks facing this market and the odds we could fall into a bear market this year.

IA Financial: A dirt-cheap financial to consider, even if you think a bear market will hit in 2022

IA Financial is an underrated insurer and wealth manager that goes for just 9.3 times trailing earnings at writing. The dirt-cheap stock comes with a 3.5% dividend yield. Though it's not too high, I view it as more sustainable in the face of a potential economic recession. Undoubtedly, management has erred on the side of caution versus its peers. Though the growth prospects fall shy, given IA has more domestic exposure than its peers, I favour such exposure during difficult times. Indeed, higher growth often comes at the cost of higher risk! In that regard, IA outshines its peers, in my books.

IAG stock recently slipped 15% from its high of around $84 and change per share. I view the decline as a great buying opportunity for those seeking value and yield to fight inflation and volatility. Though growth could wane in an economic slowdown, I view the higher rates as a net positive over the long haul.

CATEGORY

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