New Investors: Embrace the Market Downturn and Start Making Serious Side Income

Description

Market downturns can make even the most experienced investors uncomfortable. So, it's entirely okay for new investors to feel nervous in this downturn. That said, bear markets are excellent opportunities for investors to buy wonderful businesses at awesome discounts. Many of these quality businesses pay generous dividends, which provide regular returns as periodic cash payments into your pocket! Here are some undervalued stocks to put on your radar.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) offers a rich dividend yield of almost 5%. The big bank stock is discounted by about 13% from the 12-month analyst consensus price target shown on Yahoo Finance. It also trades at a greater discount of about 19% from its long-term normal valuation.

The bank stock is a safe long-term income investment for passive income. First, it generates more than half of its revenues in Canada, where it operates in a regulated, oligopoly environment. Second, its return on equity is solidly in the teens range. For instance, its five-year return on equity is about 13.5%. Third, it normally maintains a payout ratio of about 50%. With this margin of safety, even during economic downturns, it has been able to keep its dividend safe.

BNS stock has paid dividends since 1833, and it has increased its dividend in the long run. For example, its 10-year dividend-growth rate is 5.8%. Assuming a 5% growth rate on earnings and its dividend, combined with its generous yield, investors can approximately get long-term returns of 10%, excluding any valuation expansion. Using the Rule of 72, an investment today could double investors' money in roughly 7.2 years. On an initial investment of $10,000, in about 7.2 years, buyers of BNS stock today could potentially generate $1,000 of annual dividend income.

Restaurant Brands

Restaurant Brands International's (TSX:QSR)(NYSE:QSR) results rebounded in the first quarter. It witnessed consolidated system-wide sales growth of 13.7% across its brands: Burger King, Tim Hortons, and Popeyes Louisiana Kitchen. Its newest brand, Firehouse Subs, also saw system-wide sales growth of 7.4%. Together, system-wide sales achieved just north of US$9 billion.

QSR is a cash cow because of its franchised business model that has low capital expenditures. In the trailing 12 months, it generated operating cash flow of almost US$1.7 billion, of which 94%, or close to US$1.6 billion, was free cash flow. So, its payout ratio was about 61% of free cash flow. At the end of the quarter, it had US$895 million of cash on its balance sheet that provides tonnes of financial flexibility.

Importantly, QSR stock offers a yield of about 4.25% and trades at a good valuation. According to the analyst consensus, the dividend stock trades at a discount of over 20%, implying roughly 26% upside potential over the next 12 months. So, the total returns potential over the near term is attractive at 30.6%.

The Foolish investor takeaway

The Canadian stock market has broken below the 50-week simple moving average. The market downturn may not be over yet. Consequently, it's a good time for new investors to compile a list of quality dividend stocks to potentially buy over the next months to start generating some serious side income.

A $10,000 dividend portfolio with a yield of 4.5% produces $450 for the first full year. Dividend-growth stocks like BNS and QSR can increase this side income over time without you adding new investments. However, you can fast-track your side income growth by making new investments regularly.

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2. NYSE:QSR (Restaurant Brands International Inc.)
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