1 Top Stock Pick to Buy Amid a Market Correction

Description

A market correction, falling bond prices, nosediving cryptocurrencies, and scorching-hot inflation have paved the way for a hostile environment for your average investor. Adding to the pain, lower-correlation assets like REITs have also followed the rest of the markets lower in recent weeks.

What is an investor to do amid one of the bleakest markets in recent memory? It's easy to sell out here and tell yourself you'll buy back after the market settles down. However, getting back in after the fact is hard to do, unless you're willing to pay higher prices later, perhaps much higher than where they stand today. The fact of the matter is it's likely too late to be a net seller of securities.

In any case, investors should be focused on inflation, with Canadian CPI surging 7.7%. That's an unprecedented high due to a lack of action by the Bank of Canada. Nobody knows if they can make things right. In any case, they're fallen well behind the curve, perhaps so much that they make the U.S. Federal Reserve look ahead of schedule, with the 75 bps hike delivered this month, with the potential for a 50-75 bps hike in July.

We can't encourage the Bank of Canada to ramp up in the fight against inflation. However, we can take advantage of the recent market correction by putting more cash to work. With inflation soaring and stock valuations sinking, it seems like a good time to give the securities on your radar a second look, as the market looks to regain its footing in the second half of 2022.

Can things get worse for markets?

Sure, the TSX Index could follow the S&P 500 into a bear market before the year ends. Adding to the pain is the recent slip in oil prices and energy stocks. That said, you're guaranteed to lose purchasing power or gain a negative real return just by sticking with cash. Inflation is red hot, and the Bank of Canada's lack of action could cause inflation to stick around for far longer than in the United States.

Indeed, the loonie has slipped versus the greenback of late. If the Bank of Canada doesn't hike by at least 100 bps in its next meeting, things could get really ugly.

Market correction shopping list: Spin Master

Spin Master (TSX:TOY) is a toymaker that's stuck in a year-long period of consolidation. Undoubtedly, the stock has grown cheaper after pulling back 13% from its 52-week highs. Shares of the $4.4 billion entertainment company go for 14.2 times trailing earnings. That's way too cheap for a firm that owns some of the most powerful brands in the toy space.

The balance sheet is healthy, with enough room to take advantage of acquisitions amid the coming economic slowdown. Though Spin has been quite active on the M&A front, scooping up firms like Gund and Etch-a-Sketch, the firm's organic growth is also a force to be reckoned with. Indeed, the pipeline of intriguing toy innovations and strength in the digital games business are capable of powering earnings growth higher, even as the economy grinds to a slowdown.

With such a modest multiple, I'd not hesitate to be a buyer here, as the coming period of seasonal strength (the holidays) could have the potential to be better than expected, as supply issues are solved.

The bottom line

In short, investors should cheer the market correction. Lower stock prices and higher inflation could be a gravitational force that causes investors to move out of cash and back into equities. Yes, equities are risky, but cash has become that much riskier from an opportunity cost standpoint, with inflation at 7.7% (and counting).

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Date
2025/08/24
Date Created
2022/06/24
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