New Investors: A Dividend Aristocrat That Could Rise in a Recession

Description

There aren't that many stocks that can buck the trend by moving higher in a recession. Undoubtedly, a recession and associated market correction or crash tend to drag down nearly everything. The shockwaves tend to be felt across various industries, including those that one would think is able to shrug off the gravitational pull of Mr. Market. When there's a rush for cash, even safe assets in the equity markets can fall. We saw that happen in 2020, and we could see it again if there's a truly nasty barrage of capitulation.

Indeed, such cash-crunching market crashes don't happen all that often. When they do, gold and even bond funds can plunge rapidly. That's unprecedented and tends to open up buy windows for those with cash to take advantage of the momentary bout of severe market inefficiency.

When there's a slow and steady drag into bear market territory (20% fall from peak to trough), the magnitude of market inefficiency isn't as drastic. There are still bargains out there, but it's harder to just buy anything and walk away as a winner.

New investors: Take your time when going bargain hunting!

As the bear market unfolds in the second half of 2022, investors would be wise not to chase stocks that are down by an arbitrarily large amount but to buy what does not deserve to implode. Depending on who you ask, there's either a ton of value out there or a lack of it.

With Warren Buffett doing quite a bit of net buying of late, investors should look to be selective, as there does not seem to be a time limit for buying, as there was during February and March of 2020. If you didn't buy quickly, you missed the boat. Buffett wasn't able to react quick enough. However, this time around, he has been, and investors should take their time and only pursue opportunities with large margins of safety as we inch closer into a recession or (hopefully) just a run-of-the-mill slowdown.

Given the slow and steady drag of the markets, I'd look to intriguing plays such as **Bank of Montreal** (TSX:BMO)(NYSE:BMO).

Bank of Montreal

Banks tend to take it on the chin when recessions hit. Provisions swell, and profitability takes a turn for the worst. So, what makes BMO stock worthy of owning in the face of a drawdown? It's already incredibly cheap that much of the fears may already be baked in. At the same time, rates are likely to be much higher a year from now. That bodes well for net interest margins. Further, BMO could unlock synergies from its acquisition of Bank of the West.

Though BMO is not immune from a market slide, the stock seems oversold at 6.84 times trailing earnings. That's indicative of a profitability plunge, perhaps one that accompanies a hard landing. If the next recession proves mild, count me as unsurprised if BMO has room to the upside.

The 4.47% dividend yield is rich and is poised to grow as the economic slump hits.

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Author
joefrenette