Should You Buy This June-August Rally as it Falters?

Description

Currently, we're witnessing a tug of war between bulls and bears. There are knowledgeable folks on both sides. One will be right and will be sure to tell everyone "told ya so" after the fact. The other will be wrong, but you probably won't hear from them as they hibernate and stealthily change their stances.

Investing is a long-term game, and the pursuit of the perfect entry point often leaves investors short-changed. Chasing market rallies by buying too much and exhausting one's liquidity position places an investor at risk of feeling the full force of a market correction, with no cash on hand to take advantage of buying opportunities.

On the flip side, those who sit around waiting for a return to prior market lows run the risk of missing out on huge upside moves. The June-August market rally was swift and helped many investors recover lost ground from the first half. If you got out in early June, when panic and fear were palpable on the Street, you're likely wondering what you should do next, now that the average stock is up more than 15% in just a few weeks.

The good news is that beginner investors do not need to be bullish or bearish over the near-term. Instead, it's ideal to play both sides of the coin. Buy the bargains you see, but have a bit of cash waiting in the wings in case the cheap plays become much cheaper over the coming weeks. That way, it's a win-win. You'll be happy when stocks continue to rally, and you'll be content with picking up more shares on a market retreat.

After such a sizeable rally, investors should not chase. Instead, they should nibble away at the bargains they find, with the intention of buying more on a decline. Some investors like to buy half or even quarter positions, with the intention of adding on during further retreats. By implementing this strategy, you'll care less about volatility and will be in a position to buy dips without the emotional rollercoaster.

Hydro One stock: A high-yielder that's pricey but not as expensive as bonds

Currently, I'm a fan of value stocks that pay growing dividends over time. Though I'm not inclined to double-down on defensives, I do think **Hydro One** (TSX:H) is a rock-solid play. This is a good pick for rattled investors instead of bonds or other fixed-income assets, which still seem expensive despite sporting the highest yields in many years.

Sure, a 2-3%-yielding government or corporate bond fund may look enticing. But we don't know the extent to which central banks will continue to hike. Further, inflation at more than 7% positions bonds as a losing proposition in terms of real (inflation-adjusted) returns.

Hydro One isn't cheap. The stock trades like a growth play at 21.2 times trailing price-to-earnings (P/E). Though the price of admission is steep, I'd argue that the growing 3.1%-yielding dividend makes the stock a heck of a lot cheaper than any bond. Hydro One may be more volatile than bonds, but I do view it as less risky, given the interest rate risk.

Higher rates will weigh heavily on bond fund prices. But for Hydro One, it's less of an issue. The highly-regulated utility will continue generating ample operating cash flows through recessions, rate hike cycles, and everything in between. That's predictability that money can buy. And at current levels, I'd argue that the valuation is ripe for picking. Personally, I'd buy half now and half later, perhaps after a 10% pullback.

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