1 Oversold Stock Buy for a TFSA as a Recession Nears

Description

Many beginner investors have likely never experienced a bear market as fierce as the one we're in right now. Though the bearish pundits on television may tell you that more pain is ahead, I'd argue that there will always be overconfident analysts on both sides of the fence that seem so sure of what the stock market's next move will be.

Some folks will be proven right with their near-term predictions, and they're usually quick to be welcomed back to television programs. These people seem like geniuses with crystal balls! The folks that end up making the wrong calls won't likely be held accountable for them. And many investors are less likely to hear back from them.

In any case, investors should take short-term forecasts with a fine grain of salt. At the end of the day, it's your long-term investment horizon that matters. As a self-guided long-term investor, you should focus on building wealth over the next 10-20 years. With this horizon, it's arguable that you should hope for markets to pullback over the near-term, so you can take advantage of the lower valuations that come your way.

Recessions should be embraced, not feared by long-term investors

While lower multiples may be justified by lower expected earnings in a recession year (many pundits think central banks will rate hike our way into a mild economic contraction in 2023), it's worth remembering that earnings tend to normalize and bounce back at a quick rate after a recession or macro slowdown ends. That's why post-crash rallies have been so fierce in the past.

So, if you've got a time horizon beyond 10 years, a 2023 recession should not make you feel anxious in the slightest. If anything, the recent bear market can be your moment to shine, if you buy what many others are quick to sell.

It's never easy to invest in a bear market, and delaying gratification is difficult. But it's the times when investing is painful (rather than fun) when risk-adjusted returns are the greatest.

Spin Master: Worth a spin in a recession

Consider shares of Canadian toy and entertainment company **Spin Master** (TSX:TOY), which has been quite muted ahead of what many expect will be one of the most muted holiday seasons in years. At just shy of 13 times trailing price-to-earnings (P/E), well below historical averages, Spin Master stock is priced with a recession and consumer slowdown in mind.

Recession or not, Spin Master may not be as vulnerable as many investors think. The company holds onto just a tiny sliver (around 2%) of the global toy industry, leaving ample room to take market share from industry rivals as the firm continues innovating in the face of a macro slowdown.

With strong momentum in the fast-growing digital games business (which grew by triple-digit percentage points through 2020 lockdowns), an innovative pipeline of new offerings, and a slew of strong toy brands (think Paw Patrol and Hatchimals), I'd count on Spin Master to continue bringing the good fight to its bigger brothers in the toy market.

Over the past five years, sales have almost doubled, thanks in part to hit offerings like Hatchimals and a prudent mergers and acquisitions strategy. Spin Master has acquired 15 companies, including seven in the last five years. The company's largest acquisition to date was in 2018, when it acquired GUND for US$79M. With a highly diversified product portfolio, Spin Master has made acquisitions across seven U.S. states and five countries. The company's most targeted sectors include consumer products (60%) and digital media (20%).

Though a recession could weigh heavily on nearer-term growth, I view the longer-term growth trend as still intact. At the end of the day, Spin Master is one of the leanest and most competitive players in the toy scene, with the ability to grow organically and via M&A.

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