Buy Bargain Stocks and Make Tonnes of Money in This Market Downturn

Description

Canadian stocks are worth lower multiples now than a year ago due to a macro environment with high inflation and rising interest rates. Earnings growth of businesses are pressured. Their growth projects have become less attractive. The spending power of consumers have also declined. Due to high inflation, the purchasing power of money have fallen more substantially than in the recent past.

Foolish Canadian investors could empower themselves to be in a no-lose scenario. First, ensure you have an emergency fund that covers at least three to six months of your living expenses. This emergency fund should be cash or cash equivalents.

Second, the money you invest in stocks should be for the long term. That is, this money can be in stocks for three to five years if not longer. Third, be psychologically ready to ride through market volatility.

There are perks to invest in a highly uncertain stock market that has been in a downturn since it peaked in the first quarter of the year. You can identify quality stocks and buy them at bargain prices. Though, the market isn't at bargain levels yet, Foolish investors can begin pecking at quality stocks to start building long-term positions.

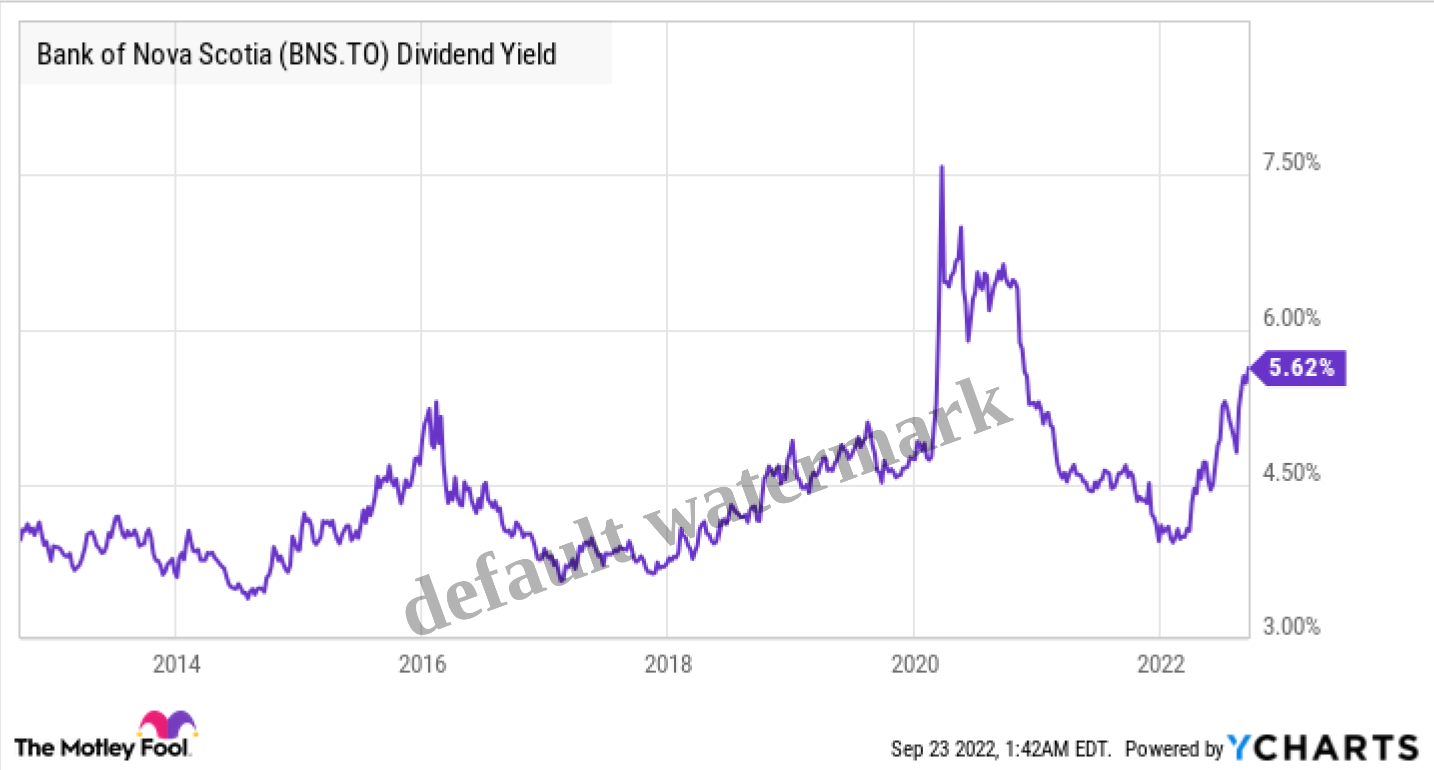
Here's an example of a solid TSX stock that is a bargain today!

BNS stock

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) has been more penalized than its big Canadian bank peers in this market downturn. Its core business in Canada is just as solid as the other banks. So, it's more pressured due to its other focus in Latin America. The loan losses in the latter could be higher in today's environment.

The important thing is that, at a high level, though, BNS continues to be solidly profitable and will increase its earnings and dividend over time. Its trailing 12-month earnings surpassed $10 billion. Its S&P credit rating is also A+.

All told, it has strong earnings power and staying power. At $69.88 per share at writing, the bank stock trades at about 8.3 times earnings, which is an absolute bargain — a discount of more than 28% from its long-term normal valuation. Below is a quick view of its 10-year dividend yield range.



BNS Dividend Yield data by YCharts

It’s a good idea to buy shares close to the high end of the range. You get paid very well while you wait for economic conditions to improve. BNS stock’s safe dividend yield of 5.9% makes the income stock highly tempting.

BNS stock has increased its earnings per share (EPS) by 5.4% per year over the last decade. It should be able to achieve a long-term stable EPS growth rate of at least 5% over the next decade. Since its payout ratio is estimated to be below 50% this year, it can also increase its dividend at a similar rate.

Foolish investor takeaway

No matter what stocks you buy, investors need to exercise patience and have the conviction to hold on to their shares.

Although there’s a good chance BNS stock will recover to higher levels over the next three years, it would be more secure if you only invest excess cash you don’t need for the next five years. In fact, some smart investors focus on the passive-income generation and continue adding shares of quality dividend stocks whenever they offer dividend yields at the high end of their historical range.

If the bank stock manages to trade at its normal valuation in five years, investors would pocket total returns of north of 15% per year — essentially doubling their investment.

CATEGORY

1. Bank Stocks
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