
# Deep-Value Stocks to Help You Score Gains in 2023

## Description

With the growthiest parts of this market sinking quickly, extra emphasis on value could pay ample dividends for investors looking to brave this rough bear market. Undoubtedly, the task of evaluating companies is much harder when a recession of unknown severity is on the horizon.



It can be a scary time for new investors who weren't around during the 2020 market crash or the 2008 Great Financial Crisis. While the unknown is always anxiety-inducing, it's essential to note that stock markets tend to adjust according to what the crowd thinks will happen in the medium-term future.

Indeed, stocks tend to overshoot to the downside when fear and panic grow to unreasonable levels. Today, markets are bracing for an economic recession due to central bank rate hikes. Though U.S. Treasury Secretary and former Fed chair Janet Yellen still views the economy as strong, there is trepidation as to what 4% (give or take) interest rates will do to what's been a relatively steady economy.

## Hoping for a dovish pivot isn't investing!

Indeed, it seems like nothing will move markets higher other than chatter about a "dovish pivot" from the U.S. Federal Reserve. Whenever there are one or two exogenous factors influencing markets, you can be sure that Mr. Market will have a harder time pricing stocks close to their intrinsic value. That's an opportunity for DIY stock pickers who know where to look and how to proceed in what's sure to be a grueling rest of this bear market.

Let's have a look at two deep-value stocks that are similar to the "cigar butt" stocks that Warren Buffett used to favour. We're talking about companies with multiples that are so cheap, the wide margin of safety makes it difficult to lose big money over the long run.

Indeed, anyone can see the value of their investment slide over the near term, especially in a vicious market sell-off. That said, patient and disciplined investors may be able to find solid risk/rewards with the following bargain-basement stocks, while most attention on Bay Street is focused on the blue-chip behemoths and stocks that are off more than 75% from their highs.

Consider **Onex** (TSX:ONEX) and **Fairfax Financial Holdings** (TSX:FFH).

## Onex

Onex is a hidden gem of a mid-cap company that many new investors have probably never heard of. The diversified investment management company is behind many intriguing firms, including WestJet airlines and Pure Canadian Gaming. With such a diverse and broad range of investments, Onex can be quite difficult to value. Undoubtedly, Westjet and other investments have endured difficult times amid pandemic disruptions.

Regardless, I still think investors are heavily discounting management's expertise and capabilities. The stock is down around 35% from its recent high just shy of $100 per share. At 5.2 times trailing price-to-earnings (P/E) and 0.5 times price-to-book (P/B), Onex stands out as a company that's misunderstood by Canadian investors.



Yes, Onex faces challenges, but at these valuations, I think the risk/reward is too attractive.

## Fairfax Financial Holdings

Fairfax is an insurance and investment holding company run by Prem Watsa (the Warren Buffett of Canada). Like Onex, FFH stock imploded during the first wave of pandemic lockdowns. Though shares eventually recovered, the name is back on the retreat, off around 13% from its 52-week high of $700 per share. Despite this drop, Watsa sees a bright future ahead.

Fairfax's main objective is to achieve a high rate of return on invested capital and build long-term shareholder value. The company maintains a diversified portfolio of risks across all business types and geographic regions. Plus, Watsa plans to double Fairfax's investments in his country of origin in the next four to five years.

In prior pieces, I praised Fairfax's improving underwriting results. In the second quarter of 2022, growth in underwriting profit resulted in a 62.3% year-over-year increase in operating income to US$645.3 million.

With a bountiful 2% dividend yield and a significant discount to book value (0.8 times P/B), I think there's never been a better time to back a brilliant contrarian investor like Watsa, as he looks to sail Fairfax through a recession. If history is any example, Fairfax should be able to fare well as the economy slips.

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