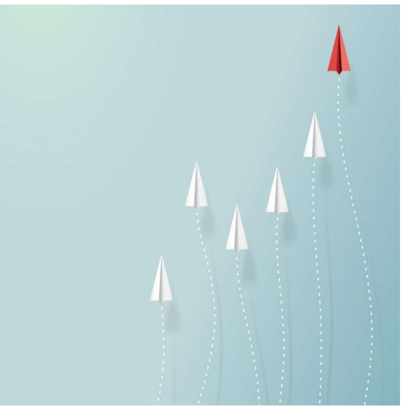

Stocks That Are Actually Soaring in a Down Market

Description

After more than 11 months of a vicious bear market, it's hard to believe that there are a few names out there which are rallying under their own power. These stocks are in bull markets of their own making which could be key to achieving stellar results in 2023. So, as the page closes on a bearish (and hawkish) year for financial markets, I think it's wise to have a closer look at some of the value options that exist today.

Indeed, many [investors] have battened down the hatches, bidding up defensive stocks during this risk-on year. Like the disruptive tech stocks that skyrocketed to the moon in 2021, investors must be careful chasing stocks with little evaluation of the valuation.

Defensive stocks, like those in the utility space, are perceived as safe and sound. When recession strikes, it's these such names that can be relied upon. Leaning on them during hard times tends to be a good strategy *if* you can get in at a good price.

Even safe stocks can crumble if the price isn't right!

With so many other investors leaning on them these days, they can crumble. Not due to factors related to the fundamentals or the impact of a recession, but due to a correction in valuation.

At the end of the day, safe stocks aren't so safe if you overpay. No stock is safe if you're paying way more than its intrinsic value. That's why investors must be careful where they place bets ahead of the coming economic downturn.

In 2021, growth mattered more than valuation. In 2022, investors who thought that saw that it ended in tears. In 2022, defensive stocks seem like great bets, regardless of price. I have a feeling it won't end well for such investors seeking safety if they're not mindful of valuation. Valuation matters, regardless of what "type" of stock you're buying.

Fairfax Financial Holdings

Fairfax Financial Holdings (TSX:FFH) is an insurer and holding company run by renowned value investor Prem Watsa. He's known as Canada's Warren Buffett due to his ability to score "alpha" (that's superior risk-adjusted returns) over time. Though he's a smart investor, he's made mistakes. And he has been beaten by the market for certain years as a result.

In 2022, Fairfax and Watsa are back to their market-beating ways, with 26.2% gains year to date. With lots of focus paid to downside risks, Fairfax is a great play to hold through turbulent times. Watsa hedges hit bets and knows that markets don't always go up.

Going into 2023, I think Fairfax is a cheap way to play defence. The stock trades at 0.6 times price to sales and 1.0 times price to book, making it one of the cheaper options on the TSX today.

CN Rail

CN Rail (TSX:CNR) is a legendary railway with the most extensive network in North America. Like Fairfax, CN is up big on the year, and now more than 11% year to date. Indeed, a recession could weigh, but it seems like few things can stop this Steady Eddie from powering higher under CEO Tracy Robinson's leadership. Recent quarters under Robinson have been encouraging.

At 24.4 times trailing price-to-earnings (P/E), CNR stock isn't discounted versus historical averages. That said, shares are much cheaper than industry averages (28.4 times P/E). With a 1.7% dividend yield and a 0.72 beta, CNR stock is a great way to batten down the hatches.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:CNR (Canadian National Railway Company)
2. TSX:FFH (Fairfax Financial Holdings Limited)

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