



Deep Value on the TSX: 2 Stocks to Buy Before They Rally

Description

Deep-[value investing](#) is not easy, especially in [bear markets](#), where rallies can turn in a hurry, leaving momentum chasers in a very bad spot. Undoubtedly, chasing rallies and catching bottoms is a dangerous game.

New investors shouldn't seek to beat the market over a timespan of fewer than three years. Though you may feel like a genius for beating the TSX Index or S&P 500 over such a near-term span, it's harder to do, as cycles and bubble bursts (like the one experienced by disruptive tech this year) come and go.

Instead of paying too much attention to near-term moves, focus on investing for the long haul and don't mind the near-term bumps in the road. If a stock tumbles after you've bought, be ready to add to your position.

The case for buying TSX stocks amid 2022's bearish finish

In this piece, we'll look at two oversold TSX stocks that I consider a deep value. Both names, I think, could experience solid rallies over the next two to three years. Indeed, the names may not seem timely ahead of a recession. The "pitches" thrown your way may get even better in a month from now. On the flip side, the "quality" of pitches could worsen, and valuations could go up if some exogenous variable propels markets unexpectedly.

It's easy to tell yourself that you'll buy a stock at lower prices. But once the lower prices arrive, it's natural to delay buying until even lower prices are met. Perhaps one will delay buying until volatility has calmed. It's very human to think that better prices will be just around the horizon in a bear market. By not embracing good deals as they're made available in real time, one may end up passing up on an otherwise great deal that may not be available at a later date.

In this piece, we'll consider two intriguing value plays that offer a great risk to reward. Nobody knows when they'll rally. But, at the end of the day, shares look to have a good long-term risk/reward scenario at this juncture.

Fairfax Financial

Fairfax Financial ([TSX:FFH](#)) is a terrific value option for when economic times get wild. The insurer and investment-holding company is managed by the legendary Prem Watsa. He's known as Canada's Warren Buffett for exceptional results over extended periods of time.

Fairfax and Watsa aren't constant market beaters year after year, though. Fairfax recently broke out of a multi-year slump. Year to date, shares are up more than 27%. The hostile market environment has paved the way for better deals. Watsa has not shied away from deal making amid market turmoil. The firm hit a deal to take Recipe Unlimited (the firm behind the legendary Canadian restaurant chain Swiss Chalet) private.

As the market keeps sagging, look for Watsa and company to continue taking advantage. If anything, more pain in markets could be a net long-term positive for the firm, as it gets more bang for its buck while its underwriting performance subtly improves.

At 1.1 times price to book, I view FFH stock as a deep-value bargain. I think the TSX stock has legs after outpacing the TSX in 2022.

Air Canada

Air Canada ([TSX:AC](#)) is a deep-value play that's not for the faint of heart. The COVID-hit Canadian airline has not seen a smooth, upward recovery from the COVID crisis. With a greater tilt towards international flight, I don't expect Air Canada will be flying high anytime soon.

That said, I think AC stock is one of the few names that can deliver steady gains from here. The stock is just so battered. Further, Air Canada is essential to the nation, making failure a highly unlikely event, even if lockdowns were to sweep again.

As recession hits, air travel demand will be in for more swings. At \$19 and change per share, the TSX stock goes for 0.5 times price to sales. That's cheap. While few catalysts can spark a near-term rally, I think the odds are on the sides of patient investors willing to give the name at least three years to work its magic. I think it'll come flying back over such a timespan.

CATEGORY

1. Investing

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2. TSX:FFH (Fairfax Financial Holdings Limited)

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