2 Canadian Stocks That Could Course-correct in 2023

Description

Investors are ringing in the New Year with an extra $6,500 contribution they can make to their TFSAs. With so much value on the TSX, I'd argue that there's no better time than now to put some capital to work before the bull has a chance to take the bear's place. Now, nobody knows when this bear market will end. However, the precise timing of the bear's end is less meaningful to long-term investors focused on building a nest egg over the next 5–10 years.

2022 was a huge wake-up call for new investors. Neglecting the valuation process can accompany severe punishments. Stocks can get cut in half in a hurry, and after two vicious bear markets in a span of just north of two years, risks should be evaluated just as much as potential rewards.

That doesn't mean high-reward opportunities are to be neglected. Rather, investors should ensure they know what they're signing up for. High-return plays naturally come with greater downside risks. In 2020 and 2021, when it was easy to make money, many likely overestimated their risk tolerance. With so much pain from the 2022 sell-off, you now have a better understanding of how much volatility and downside you can handle.

In this piece, we'll check out two battered high-risk, high-reward plays that could turn a corner in a big way.

Air Canada

Air Canada (TSX:AC) is a bruised airline that's sailing into some profound headwinds as the recession sets in. Though COVID headwinds are fading with time, a recession could put the airlines right back in the hole they climbed out of over the past two years. Air Canada stock has been on a steady descent over the past year, falling 12% year to date.

Though the negative momentum is slowing down, investors must resist the urge to get too greedy with a name that could be in for a modest, albeit still profitable multi-year recovery. At the same time, Air Canada stock has been so beaten down that a recession may not be able to make things much worse than current expectations.

If a recession does prove mild (or avoidable), AC stock could be a solid performer for deep-value seekers. The stock has no price-to-earnings (P/E) multiple, but does boast a mere 0.5 times price-to-sales (P/S) multiple. Undoubtedly, a 2023 air travel recovery snag seems baked in at such a price.

Fairfax Financial Holdings

Fairfax Financial Holdings (TSX:FFH) is an insurance and holding company managed by Prem Watsa — a man known as Canada's own Warren Buffett. Watsa, I believe, isn't all too comparable to Buffett, given his use of hedges (think short-side positions) and bold deep-value bets. Indeed, Buffett is a bigger fan of buying "wonderful" businesses at a fair price, whereas Watsa seems to prefer wonderful prices, regardless of how wonderful a business is.

In any case, Watsa has the temperament to beat the market over the long haul. Though his recent history of spotting macro trends has been mixed, I do think his insistence on obtaining deep value will prove bountiful in time. It's not just Watsa that makes FFH stock itself a wonderful stock at a wonderful price; the firm's getting better at underwriting. At the end of the day, a better underwriting performance is key to unlocking outsized gains in a firm like Fairfax.

At 0.6 times P/S, FFH stock is a spectacular bargain that could be in for a big 2023.

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Date
2025/08/13
Date Created
2023/01/02
Author
joefrenette