2 Oversold Blue-Chip Dividend Heavyweights to Play it Safe

Description

Investors shouldn't be so quick to switch to risk-on mode just because a new year has landed. If anything, now seems like a good time to re-evaluate the risks that lie ahead. Not only is there a recession on the horizon, but the valuations in some of the recession-resilient plays seem to be getting quite rich. Defensives are only good for playing defence if you can get in at a low-to-fair price. Overpay and you could lose money, perhaps as quickly as with the falling knives in the tech sector.

So, don't pay any price for the defensive stocks because they may not be all they seem in the face of a downturn, especially if we're in for a risk reversal.

Today, we'll consider two undervalued stocks that can help further diversify your portfolio and put you in a decent spot ahead of the next bull run. Undoubtedly, the recession has yet to start. Still, last year's anticipation of this year's recession is already considered in most stock prices.

Banking on a market bargain

At this juncture, Canadian banks seem incredibly cheap. They're anything but recession resilient. However, given the damage they've endured in recent months, it's arguable that hard-hit bank stocks are a better bet than the bid-up defensive dividend stocks.

Banks may not be in a position to thrive this year. However, buying bank stocks on big dips tends to be a great strategy over the longer term. The bank dividends are robust and tend to creep higher in the face of recession. Further, bank stocks tend to be quick to find their feet once economic contraction turns to expansion.

For now, banks could slump their way into the recession. But fear not, as they tend to have front-row seats to the ensuing recovery. If you can snag a dividend yield at above historical averages, you may have a terrific entry point on your hands.

At these levels, **TD Bank** (TSX:TD) is my preferred bank stock to buy while its price-to-earnings (P/E) multiple hovers at around 9.4. Just over a month ago, Canaccord Genuity hiked TD to a Buy, while slashing its peer **CIBC** to a Hold.

Same macro headwinds, but clearly, TD is better suited to ride out a storm. Canaccord is a fan of the First Horizon acquisition and its ability to power TD's growth. With a growing presence in the states, it's no mystery as to why so many like TD and its premium growth prospects.

With a 4.38% dividend yield, TD stock is the best bank for my buck. I'll look to add to my position on any dips moving forward.

A golden opportunity?

The price of gold has crept higher in recent weeks, but you may have missed it. Meanwhile, gold miners like **Barrick Gold** (TSX:ABX) have experienced relief. The stock surged 4.4% on Wednesday on an upbeat day for the shiny yellow metal. Over the past month, shares are up around 14%. I think the momentum can continue as gold finds its legs again.

The stock trades at a low 16.7 times trailing P/E, with a 3.12% dividend yield. Indeed, Barrick's dividend is one of the most bountiful in the space. Should gold make a move to new highs, expect a generous dividend hike alongside more capital gains.

In any case, ABX stock seems like a prudent way to get a low-correlated return in a recession year. The 0.13 beta means the name is less likely to fall alongside the TSX.

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2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:TD (The Toronto-Dominion Bank)

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