2 TSX Stocks With a High Margin of Safety to Protect Your Capital

Description

2023 will be a year where investors will weigh downside risks just as much, if not more, than potential upside risks. Indeed, in 2021, many of us were forgetting to analyze the full extent of the risks associated with certain stocks. If a stock is moving higher and nobody has anything but good things to say, it seems like a good idea to get in with the intention of doing the homework later.

Undoubtedly, many new investors got hurt by investing without putting in due diligence beforehand. Sure, you could miss out on a few weekly gains by taking your time with a name that falls on your radar. That said, it's far better to miss out on a gain than find yourself on the receiving end of a nasty implosion in valuation. As the broader market's valuation reset continues, investors must consider what they risk losing to what they stand to gain.

Finding value in a rocky market

Once again, investors need to be committed for the long haul. Anything short of three years may not be a long enough timespan to cut away at the risks of various securities. Indeed, the longer you plan to hold a stock, the less risky a name will become. At this juncture, stocks seem less risky than bonds provided you're willing to be in the game for the next 10 years.

That said, you shouldn't bottom catch. That simply does not work anymore, with various unprofitable growth companies that continue tumbling endlessly. Eventually, tech will shine again. But between now and its next big rally there could be a windy road that'll surely challenge the stomach of the average investor.

That's why it's wise to stick with value. Indeed, many "safety" stocks aren't the same value they were in 2021 when investors seemed to ditch steady eddies for hot tech names. With this in mind, let's look at two hidden gems that may be trading at steep discounts.

Fairfax Financial Holdings

Fairfax Financial Holdings (TSX:FFH) has quietly made a nice comeback over the past year, soaring just shy of 28%. That's a huge gain in a down year. Prem Watsa, the legendary investor and CEO of Fairfax, has seemed to return to his market-beating ways. The cautious investor is all about considering the downside and upside of investments. As markets fluctuate wildly in a bear market, I think Watsa can work his magic and help FFH stock rally in the face of even more market downside.

Watsa shines when markets endure their worst moments. I'm a big fan of his unorthodox style of investing and think 2023 could be another year of solid gains for the unorthodox insurance and investment holding company. At 1.1 times price-to-book, shares remain cheap.

MTY Food Group

MTY Food Group (TSX:MTY) is best known for its mall food court brands. You've probably eaten at a few during your last visits to your local mall. The stock has been stuck in a consolidation channel in the $60 per-share range for quite some time.

But, alas, a recession never bodes well for mall visits. People just don't have the income to go shopping. On the flip side, a recession may be a double-edged sword for MTY. The company still offers cheap food, fast. Perhaps less mall traffic, but higher rates of visits at the food court could translate into steady performance for the firm.

Most recently, the firm closed its Wetzel's Pretzels deal. A move that further strengthens the company's mall presence. At 15.7 times trailing price-to-earnings, MTY stock looks quite cheap. The 1.42% dividend yield is also well-covered.

Bottom line

A margin of safety is key to lowering your chance of losing money in a rocky year. FFH and MTY stocks are pretty enticing value names that I view as having a wide margin of safety. Sure, the names may not be exciting, but they can help you through bear markets.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:MTY (MTY Food Group)

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