1 Dirt-Cheap Stock That Could Skyrocket

Description

Don't let the hot start to the year stop you from putting any excess cash to work as the new bull looks to emerge. Undoubtedly, it's hard to be bullish after a year of bearish yells from pundits and painful downside moves that struck any relief rallies. Though the "deals" may not be as abundant as back in October 2022, I still think investors are taking on "upside risk" by waiting around for markets to revisit those bear market lows. Sure, there's a lot of ugliness up ahead, with a recession, rate hikes from the U.S. Federal Reserve, and muted earnings. However, one needs to remember that it's less risky to be an investor when expectations are modest.

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Back in 2021, when it seemed like stocks could only go up (as the meme traders thought), it felt like a safe time to get into the market waters for the first time, with an emphasis on white-hot tech stocks. Nowadays, the market seems less compelling, given volatility and the uptick in bond yields. Undoubtedly, bonds are more attractive than they were a year ago. However, I still think stocks are the best investment for young investors who want to create wealth over the course of many years.

Over time, stocks are a far better asset class than bonds, gold, or "risk-free" securities. To get the better long-term returns potential from stocks, though, you need to deal with the swoons. That's part of the deal. You need to be willing to take a hit if you want to maximize your rate of wealth creation. Otherwise, it'll be hard to build real returns or returns after inflation is factored in.

In this piece, we'll have a look at one cheap stock that exhibits less volatility than the market averages. It's these less-volatile (or low beta) names that may make compelling buys for young investors who may be on the fence between stocks and bonds.

Hydro One: Gains and defensiveness for jittery new investors

Consider **Hydro One** (TSX:H), a low-beta (0.26, indicating far less volatility than the TSX) stock that I think prudent investors should be watching closely after the latest 8% dip. Hydro One is the opposite of a "sexy stock." With a 20.7 times trailing price-to-earnings multiple and a 3.2% dividend yield, what you will get from the name is a nice mix of capital gains over time and generous dividend payments.

After surging 23% in two years, Hydro One's dividend is a tad on the low side, especially given inflation and bond yields. Historically speaking, the yield is also quite low. However, it's low because investors are upbeat about the firm's stable prospects as it moves through a rate-induced recession. In a way, the macro headwinds hurting most bottom lines aren't going to rattle Hydro One. The firm has a stellar balance sheet and a wide moat surrounding its cash-flow stream.

Hydro One may be no steal, but compared to bonds, I do think it's the better bargain, given its defensive growth prospects that could power far more in the way of capital gains over the next three years.

The bottom line

Stocks outshine bonds over the long run. But even if you're young, there's no shame in having some bond exposure. Further, having enough cash for a rainy day is only prudent. A sound liquidity position will also allow you to take advantage of the opportunities that come with corrections and crashes.

Low-cost, low-beta stocks are a fine middle ground for investors who may have too much cash that they won't need at any point over the next 5–8 years. Even low-beta stocks can plunge, though, so do be mindful that there are no guarantees when it comes to stocks. That's why you've got to commit to investing for the long haul and not seek to panic sell once the next inevitable dip comes your way!

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