Why Does Jay Soloff Love This Income Stock?

This company is in the sweet spot when it comes to higher mortgage rates. Its required insurance product is in increasing demand as home prices outstrip the ability of most buyers to pay 20% down. Enact (ACT) should be on your radar as a housing market play that can win in a variety of scenarios.

The Housing Market Index, which measures homebuilder confidence fell five points recently from 50, to 45, an indicator homebuilders are a little less bullish than they have been for most of 2023. One big reason, continued high interest and mortgage rates.

But if you're a homebuyer in this environment, unless you're one of the lucky few to be paying cash, you're going to be required to pay Private Mortgage Insurance (PMI) in your monthly mortgage payment. And that's where **Enact (ACT)** makes its living.

What exactly is PMI? Private mortgage insurance is required by mortgage lenders when a buyer puts down less than 20% of the purchase price of a home. The insurance premiums are paid by the homeowner, but the insurance is there to protect the mortgage lender in the event the homeowner defaults on their loan.

And rising mortgage rates, which bump up the price of that loan substantially, and therefore the monthly payments, are making it harder and harder for buyers to surpass that 20% threshold on their down payments. Which, as you've probably surmised by now, means more business for ACT.

The rising cost of homes, combined with a continued shortage of houses, really makes it difficult for Enact **NOT** to do well. As CEO Rohit Gupta said in their latest earnings release,

“[S]trong new business production supported by elevated persistence drove record insurance in force while favorable credit performance and expense efficiency drove solid earnings and returns.”

In other words, Enact is seeing record demand for its product, and they just need to ensure they execute that business efficiently.

And, from their recent numbers, they are executing quite well. The company is over 80% owned by insiders, a huge vote of confidence, and has operating margins of over 85%. (For reference, American International Group (AIG), a large general insurer, has operating margins of 29%.)

The company trades at 6.7x current earnings, and only 7.7x projected earnings. It also comes in at only 8.1x free cash flow, which is a huge plus in the current interest rate environment. Its current dividend is 2.29%.

ACT has an overall A rating in our POWR Rating system, and should continue to perform well given current housing demand. The stock has moved from the low $20s to close to $30 this year, and is now pulling back slightly offering a potential buy opportunity.

What To Do Next?

Above I featured just 1 of my favorite income stocks. My guess is that you’d like to discover even more attractive income stocks.

All you need to do is check out my POWR Income Insider portfolio.

This is backed by a proven quant strategy that has produced an average annual return of +24.3%. It even generated surprising gains in 2022 when the bear market came to town.

If you would like to learn about this consistently successful

income stock approach…then just click the link below:

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ACT shares closed at $27.62 on Friday, down $-0.10 (-0.36%). Year-to-date, ACT has gained 16.57%, versus a 13.80% rise in the benchmark S&P 500 index during the same period.

About the Author: Jay Soloff

Jay is a former professional market maker who cut his teeth trading on the floor of the CBOE. With more than 20 years of experience trading and investing, his focus is on making professional strategies accessible to everyone, which is exactly what does in his highly profitable POWR Income and POWR Stocks Under $10 investment advisory services.

More…

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