

Market Uncertainty Arises: How to Invest

Written by Rob Copeland
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Experienced investors know that market expectations are never certain; there are just too many potential surprises out there. But there has rarely been more uncertainty than there is right now.

Example: Healthcare stocks had rallied since the election of Donald Trump, on expectations that a wave of deregulation would lift profits. Then, in a press conference nine days before his inauguration, Trump slammed drugmakers' business practices as "disastrous." Drug and biotech stocks dipped sharply, even as Trump spoke.

The truth is that most market sectors rallied in the wake of the election. But the rally has stalled for several days now, as investors look beyond "animal spirits" for concrete reasons to keep bidding up stocks.

The fact is that no one really knows the impact that the Trump administration and the Republican-controlled Congress, will have on the markets. On top of that, the post-election rally has stretched prices across the market. For investors, this isn't the time to bet on whether the rally can go on.

It's a time to step back and find investments that promise to make us money regardless of the market uncertainty. And that means looking beyond the expensive, fast-growing names that have dominated the market. The stocks we want in this environment are dividend-paying value stocks—intrinsically valuable companies whose prices have slipped because they're underappreciated. There aren't many of these diamonds in the rough, but they are worth the trouble of seeking out.

Unlike growth stocks, we don't buy value stocks in the expectation of rapid capital appreciation. Value stocks are part of a patient, conservative approach that can pay off in nice gains over a longer time horizon.

When evaluating stocks, one of the most important factors we look at is current and projected cashflow. Ultimately, an underpriced stock with solid cashflow will appreciate to reflect the value of that cashflow. Value stocks require patience: The nature of the market is that "the herd" is often slow to appreciate the intrinsic value of high-quality, out-of-favor stocks. Ultimately, value

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investors believe that the market will catch on and boost their share prices.

Meanwhile, value-stocks' dividends reward us for waiting until the market realizes they're undervalued. Dividends, if they are reinvested, also serve as a performance cushion to mitigate losses.

We're in uncertain times. Deregulation may or may not happen. Trump's policies in areas like trade may help or hurt American companies. We won't know how government actions will affect markets for months. But value investing doesn't rely on developments out of Washington, D.C. It allows us to buy good companies at a discount, wait until the market comes around, and collect dividends in the meantime. Right now, holding out for those diamonds in the rough is the smart strategy.