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Stock Market Investing Tips, Techniques, and Resources



Best Value Stocks for 2021

By: www.ProfitableInvestingTips.com

Value stocks are leading the charge as the economy emerges from recession caused by the Covid-19 pandemic. What are the best value stocks for 2021? To make the best picks in this category you need to know what constitutes a value stock and how value stocks differ from growth stocks. Growth stocks often sell for higher prices than their current fundamentals would seem to support because investors want to position themselves for long term growth and profits. Value stocks are often companies that generate steady profits over the years but don't excite growth-conscious investors.

What Is a Value Stock?

The basic definition of a value stock is one that is trading at a price which is lower than careful analysis of its performance would suggest. Value stock investors typically use [intrinsic stock value](#) as a guide. By understanding a company's potential for forward-looking cash flow and profits an investor is able to anticipate the quarterly and annual sales, earnings, and dividends that drive stock prices. This nuts and bolts approach to stock picking was first defined by Benjamin Graham in the years immediately following the 1929 stock market crash. In theory and practice this approach takes the guesswork out of investing in stocks and helps investors avoid falling prey to the twin demons, fear and greed, that all-so-often destroy investment portfolios.

An example of a value stock would be McCormack, the company that has been making spices for more than a century and a quarter. By comparison, Tesla which relies on expectations of a shift to electric vehicles is a growth stock.

How to Invest in Value Stocks

Here you have two choices. The first is to investigate individual stocks and the other is to invest in ETFs that are loaded with value stocks. Three prime examples of such ETFs are the following:

- Vanguard Value Index Fund ETF
- Russell 1000 Value ETF
- iShares S&P 500 Value ETF

The most common way to screen for value stocks is to use the PE ratio. The profit to earnings ratio gives you the stock price divided by the most recently reported earnings per share. Many investors use the CAPE ratio instead of the PE ratio as it averages out the PE ratio over the preceding ten years and thus is a better indicator for long term investing. You can use a stock screener to find an initial list to work from. Then the task is to understand just what a company does to make money and how it will continue to make money over the long term. Warren Buffett famously said that he tends to avoid high tech companies because it is too hard to predict who will be the leader in a field five years hence. He became a huge investor in Apple when he looked

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In our recent article about [investments in the k-shaped recovery](#) we noted that companies like Caterpillar, Johnson & Johnson, JP Morgan, Chevron, and Boeing are expected to do well in 2021. These are all blue chip value stocks. An article in the business section of *The New York Times* notes that in 2021 the high tech growth names that led in 2020 are out and metal mining companies and oil drillers are in as the current [hot stocks are old fashioned](#) favorites. Not only can you see individual growth stocks doing well but a comparison of the Russell 1000 value and growth indexes shows the same picture. As such, an easier approach to picking the best value stocks for 2021 might just be to pick on the three growth-focused ETFs that we mentioned.

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