

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Investing in Value Stocks

A good way to make a profit in the stock market is by investing in value stocks. Value stocks are actually undervalued stocks such as in today's energy sector. [Investopedia](#) defines a value stock.

A stock that tends to trade at a lower price relative to its fundamentals (i.e. dividends, earnings, sales, etc.) and thus considered undervalued by a value investor. Common characteristics of such stocks include a high dividend yield, low price-to-book ratio and/or low price-to-earnings ratio.

A value investor believes that the market isn't always efficient and that it's possible to find companies trading for less than they are worth. An easy way to attempt to find value stocks is to use the "Dogs of the Dow" investing strategy – buying of the 10 highest dividend-yielding stocks on the Dow Jones at the beginning of each year and adjusting it every year thereafter.

Investing in value stocks is not just investing in cheap stocks. Good value stocks pay dividends and/or have high growth potential. These stocks commonly have a very sound business plan and return profits year after year. When there is a market rally value stocks often get left behind as investors follow rapidly growing stocks. However, when the rally corrects or the market reverses value stocks do, in fact, retain their value. Value stocks tend to outperform the overall market over the long term.

Picking Value Stocks

Investing in value stocks requires that you pay attention to the market. Using stock screens to find low profit to earnings ratio stocks is useful. However, investing in value stocks also requires that you understand just how it is that a company makes its money and how it will continue to do so. Often times this requires an outside the box view of stocks and the market in order to understand how global events and other factors will tend to drive stock prices in the near and midterm future. Forbes provides an example of how to do this in their article about the [top ten value stocks](#) that they see in emerging markets.

A weak recovery in the U.S. and Europe has helped reduce the price to earnings ratios on a number of large cap stocks in the big emerging markets. Value investors take notice. Here are the top 10 recommendations by stock forecasters at [ValuEngine.com](#).

Examples given include AsialInfo Linkage (ASIA) which is referred to as the backbone of China's mobile telecom system. A second stock mentioned is the Brazil petroleum giant, Petrobras. And a third is Brasil Foods, the largest food company in Brazil. Each of the ten suggestions in the article is a solid company that is situated in a country with economic

issues. The working assumption is that economies will recover and investing in value stocks in Brazil, China, India, etc. will be profitable in the long term as you are picking up deals on what in the long run will be cash cows.

The Energy Sector

How long will the price of oil stay down? That will be how long energy stocks will remain in the doldrums. Supply has outstripped demand and when producers cut back and the economies in China, Japan and Europe pick up steam oil prices will go up. The New York Times suggests that there is **value after a plunge** in the energy sector and that several hedge funds are positioning themselves to take advantage.

While many investors, including Warren E. Buffett, were selling energy stocks in the final three months of 2014, several hedge funds sought to profit on the turmoil, regulatory filings showed on Tuesday. Third Point, the firm run by Daniel S. Loeb, acquired a sizable stake in the oil refinery company Phillips 66, while Leon G. Cooperman's Omega Advisors amassed a new position in Laredo Petroleum, and Viking Global Investors, led by Andreas Halvorsen, increased its stake in Cheniere Energy by several million shares.

Although hedge funds tend to jump in and out of stocks, long term investors may find opportunities for investing in value stocks that they can buy cheap today and hold forever.

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