How to Beat the Market

Description

Beating the market is never easy. Certainly, it is possible to get lucky every now and then so as to beat the wider index in a given year. However, doing so on a consistent basis requires judgment and an ability pick the right companies in the right sectors at the right time. Despite this, it is possible for any investor to outperform the market. Here’s how you can go about doing just that.

default watermark

Cyclicals versus defensives

Perhaps the most important part of investing in shares is having the right mix between cyclical stocks and defensive shares. This is largely dictated by where an economy is in its cycle, which in itself is difficult to predict. During periods of higher growth, cyclical stocks should perform better as their profitability improves. Similarly, during recessions and economic slowdowns, defensive stocks are likely to gain favour and see their ratings increase.

Therefore, it is possible to switch from cyclicals to defensives (and back again) in order to enjoy relatively consistent increases in demand for those types of shares. In other words, investors can ride the wave of cyclical growth before benefitting from rising demand for defensives. Although it requires judgment as to the future direction of the economy, focusing on the valuations of cyclicals and defensives can provide a guide as to which of the two types of stock is more attractive at a given time.

Regional growth

Investing in fast growing regions can also help you to outperform the wider index. For example, investing in emerging markets was a sound strategy within the mining sector for a number of years, but it now appears as though consumer stocks focused on the developing world could be a better idea. Similarly, European stocks have generally disappointed, but could prove to be sound buys in future thanks to relatively low valuations.

Of course, predicting the growth rate of any one region is always challenging. However, by focusing on the general trends of wages, GDP growth and also the valuations of stocks operating within a specific region, it is possible to determine whether it is a good place to invest. By identifying the best countries and/or regions in which to focus your capital, it is possible to gain a significant tailwind over a long period of time.

Stock specific factors

Within any industry or sector, there will inevitably be better quality companies than others. Similarly, some stocks will offer more attractive valuations than their peers at a given time. Clearly, it is easy to simply pick out the better quality companies and buy those, but the reality is that buying cheaper stocks as part of a value investing strategy can be a more consistent means of beating the market.

It means there is a wider margin of safety on offer, since a lower valued stock already has challenges and difficulties priced in. Therefore, if its performance improves, it could lead to a major upward rerating and help an investor to beat the wider market. Clearly, cheaper stocks can be riskier and more volatile than their better performing peers However, by concentrating on valuations alongside a focus on the most appealing regions and the right mix of cyclicals and defensives, you could consistently beat the market.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Yahoo CA

default watermark

Category

1. Investing

Date
2025/08/27
Date Created
2017/01/24
Author
peterstephens

default watermark