Why These Stocks Are Set to Be the Winners in 2017

Description

If the first month of 2017 is anything to go by, this could prove to be one of the most uncertain and volatile years for stock markets in living memory. Already, there is significant political uncertainty in the US and Europe. This has the potential to increase as the year progresses. As such, owning shares in companies which offer reduced volatility and stable business models could be a sound move. They may lack excitement, but that could prove to be a good thing in 2017.

Stability

While 2016 was a year full of surprises, 2017 has so far proven to be rather more as expected for investors across the globe. While the new US President and Brexit may be unpopular and protests have been substantial against both issues, the uncertainty they have created was widely predicted. While both events could be beneficial in the long run, in the short run at least they look set to cause disruption and even fear among market participants.

In fact, as the year goes on it looks set to be a case of more of the same for these two issues. Brexit talks are likely to commence within weeks, which could cause investor sentiment towards Europe to come under pressure. Similarly as more policy change is enacted in the US, investor and business confidence in the world’s largest economy could also take a hit.

Low volatility

Stocks which offer a more consistent shareholder experience may therefore become more popular during the course of the year. One way to identify companies which fall into the category of relatively consistent share price performers is to focus on a stock’s beta. This provides a guide as to the volatility of a company versus the wider index.

For example, a stock which has a beta of 0.5 would be expected to record a share price movement which is half that of the index. So, if a stock market’s price level decreased by 10%, a company with a beta of 0.5 would theoretically see its shares fall by 5%.

Consistent business model

However, beta is just one means of identifying lower volatility shares. Perhaps an even more useful method is to focus on stocks within sectors such as tobacco and utilities, which tend to offer defensive characteristics. Demand for water, electricity and cigarettes is unlikely to decline even in the worst of economic conditions. As a result, those sectors may outperform their peers through becoming more popular among increasingly risk-averse investors.

Even within those industries, there are likely to be companies which have more stable operating outlooks. For example, they may have lower debts, stronger cash flow and a more proven long term growth strategy. Similarly, they may have a better track record of financial performance during difficult periods for the wider economy. This could prove useful if the world economy deteriorates in the coming months.

While a recession is not guaranteed in 2017, volatility looks likely to remain high for the foreseeable future. Therefore, by focusing on companies which are more likely to thrive in such conditions, investors may be better able to outperform the wider market. Low beta, stable companies operating in defensive sectors could be the winners this year.

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