



Why Value Investing Pays Off

Description

It may not be as exciting as looking at trends, indicators, buy and sell signals, but value investing can often be the safest strategy for your portfolio when you're looking to build wealth for the long term.

Growth is appealing, but it also comes with risk

Growth stocks like **Facebook, Inc.** can certainly offer a lot of upside, but there's also a lot more risk involved there too, and with tech stocks, it's always about the latest and greatest trend, and it's easy for a stock to get left behind.

BlackBerry Ltd. is a perfect [example](#) of a tech stock that has had to reinvent itself after being unable to stay competitive in the handheld market. Once a top stock in the industry, many people today are surprised to learn that BlackBerry is still around.

Bank stocks often provide lots of value

With value investing, you're looking for good buys — stocks that trade at reasonable multiples and have good financials overall. Bank stocks like **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) are often good value buys, and that's why Warren Buffett always likes to invest in that industry, because it's a great way to earn stable returns over the long term.

TD trades at a very modest multiple of around 13 times its earnings and has a [strong business model](#) that isn't in any danger. The bank stock actually has a lot of growth potential outside Canada, and that makes it an even more appealing investment.

However, bank stocks aren't the only place you can find value.

My experience

One of the first stocks that I invested in that grabbed my attention was NeuLion, Inc. The company had high margins, no debt, and what I thought was a great product, and so I invested when I saw a dip in price.

Unfortunately for me, the stock price continued to drop — heavily. From the time that I bought in at over \$1 a share, the price fell to less than half of that value within a year. I did what I thought was crazy at the time — buy even more as the price went down. However, if the stock was a good buy at \$1, surely it was an even better buy one at \$0.80 and \$0.70.

The problem is, when you keep digging, you can get yourself into an even bigger hole. So, I stopped even looking at the price, and decided to let things play out. As tempting as it was to sell, and with charts suggesting that the stock was going to crash even further, I resisted the temptation and stuck with it, because I knew it was heavily undervalued.

And then, one early March morning, after I had finished writing an article for this site, I checked to see how the markets were doing. To my surprise, I saw that NeuLion had been bought out for US\$0.84, which was well above my average price. Within an instant, my losses turned to gains, and my faith in the system was restored.

Bottom line

What I learned is that the biggest struggle when it comes to investing is simply to resist that urge to get caught up in the hype or pessimism that stocks can lure you into. As long as a company's business model is still strong and has good value, some bad results shouldn't change your overall outlook.

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Author
djagielski

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