Will Growth or Value Stocks Outperform to Close Out the Year?

Description

The current bull market is now in its ninth year. Although earnings continue to shine, and I don't expect a correction any time soon, cracks are beginning to show. Amid this bull run, growth investing has dominated portfolio returns.

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Value investing, which was once the dominant strategy, has underperformed, posting lower-than-average returns. It's easy to understand why. Value has largely been ignored in favour of momentum stocks. Think **Tesla** and **Netflix**. The other factor? Value has been difficult to come by in this frothy market. Trading at all-time highs, it is easier to pick out rising stars than to find value plays.

Be warned. In the event of a market correction or crash, growth stocks trading at high price-to-earnings (P/E) multiples can take a nasty tumble. Case in point, **Netflix**, **Facebook**, and **Shopify** all crashed after they failed to meet market expectations. We are talking drops of more than 20%. This is not simply a correction; this is crash territory. A market correction is defined as a market drop of 10%, whereas a crash refers to declines of 20% or more. Historically, a crash can lead to a bear market.

Is the tide finally turning? Amid a crash, sister stocks will also correct. On the day Facebook crashed, it dragged all tech stocks down with it for no good reason.

The good news for value investors is that the market may be finally turning their way.

More opportunities ahead

If you look hard enough, you can always find good value in the markets. It is, however, much easier when there is a market crash. Circling back to Facebook, its one-day drop provided a great buying opportunity. Suddenly, Facebook was trading as low as $171 per share, or 26 times earnings. This is a good deal, considering the company is expected to grow earnings by 22% over the long term.

I expect the second half of the year to play out in favour of value investors. The markets are jittery, and high-growth stocks may be poised to take a breather. In light of this, investors should look for stocks that are undervalued. One such example is **Laurentian Bank of Canada** (TSX:LB). The company is trading at a cheap P/E of 8.4 and an even cheaper 7.88 times future earnings. It is also the only one of

Canada's banks trading below book value.

Russel Metals (TSX:RUS), is another example. The company is trading at a cheap P/E of 13.3, and the market is discounting its expected growth rates. The company is trading at a P/E-to-growth ratio of 0.24 and, as a result, is considered undervalued.

Value investing, which has its roots in fundamental analysis, is poised to make a comeback. The cracks are showing, and investors are lowering their expectations for growth companies. Are you prepared to make the switch?

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