The No-Brainer FAANG Stock You Should Buy

Description

The past 10 years have been pretty incredible if you're a long-term-oriented investor. Over that period, the broad-based **S&P 500** has overcome a number of modest and double-digit percentage corrections to consistently motor to new highs. In total, the S&P 500 has advanced by a cool 177% over the trailing 10-year period, through Oct. 29.

While few investors would complain with a 177% gain, long-term shareholder in the FAANG stocks are doing even better. That's **Facebook** (NASDAQ: FB), **Amazon.com** (NASDAQ: AMZN), **Apple** (NASDAQ: AAPL), **Netflix** (NASDAQ: NFLX), and Google, which is now a subsidiary of parent company **Alphabet** (NASDAQ: GOOG) (NASDAQ: GOOGL). Over the trailing 10-year period, here's how the FAANG stocks have fared:

- **Facebook:** Up 537% (debuted as a public company in 2012)
- **Amazon:** Up 1,197%
- **Apple:** Up 752%
- **Netflix:** Up 3,257%
- **Alphabet:** Up 332%

If you'd have put an equal amount of money into each of these high-growth FAANG stocks 10 years ago, or in Facebook's case when it IPO'd, you'd be up by more than 1,200%.

Image source: Getty Images.

The importance of the PEG ratio is evaluating stocks for investment purposes

You might be under the impression that these big returns mean the best days for FAANG stocks are now in the rearview mirror. However, a quick look at my favorite fundamental metric, the PEG ratio, suggests otherwise.

The PEG ratio, or price-to-earnings-growth ratio, goes beyond the simple P/E ratio, which examines a company's current price to its trailing 12-month earnings per share. Instead, the PEG ratio takes into account a company's existing P/E ratio and divides it into a company's earnings growth rate. Since Wall Street is forward looking, it only makes sense to take future growth rates into account when evaluating a business for investment purposes.

Traditionally, a PEG ratio of 1 or lower is indicative of a value. In other words, a company that has a higher earnings growth rate than its existing P/E ratio might offer value to investors. Meanwhile, a PEG ratio of 2 or higher often indicates a fully valued, if not pricey, business. Understandably, different industries and sectors can vary a bit on what's considered cheap or expensive based on their PEG ratio readings. Nevertheless, this gives investors a general range to get started when examining businesses using the PEG ratio.

Image source: Getty Images.

The PEG ratio "pegs" this FAANG stock as a no-brainer buy

Where do the FAANG stocks stand right now, according to the PEG ratio? Based on data provided by **Morningstar**, two are on the pricier side. Both Apple and Netflix sport PEG ratios of 2.26 and 1.91, respectively. Apple certainly has the most mature business and slowest top-line growth rate of the FAANG stocks, while Netflix has historically been valued aggressively despite its persistent cash outflow tied to its international expansion.

Both Alphabet and Amazon look reasonably more attractive than Apple and Netflix, with PEG ratios of 1.69 and 1.15, respectively. Amazon's supercharged growth rate, thanks to its cloud-services platform, Amazon Web Services, and Google's dominant mobile and PC-based ad market share, continue to provide an intriguing long-term outlook for shareholders.

However, it's Facebook and its PEG ratio of 1 on the nose that stands out as the no-brainer buy.

Despite facing a number of security challenges in recent years, as well as pushback from the federal government, Facebook has demonstrated that it has a long runway to growth that's only just being realized.

To begin with, no social media company has the breadth that Facebook offers. It ended the second quarter with 2.41 billion monthly active users and 1.59 billion daily active users. If you're an advertiser, there's simply no other platform that's going to give you a better chance to attract eyeballs more than Facebook. Likewise, if you need a social media account as an individual, Facebook offers the best chance of allowing you to keep in touch with friends and family. Its platform is currently unparalleled, and that's been reflected in its often impressive growth rate.

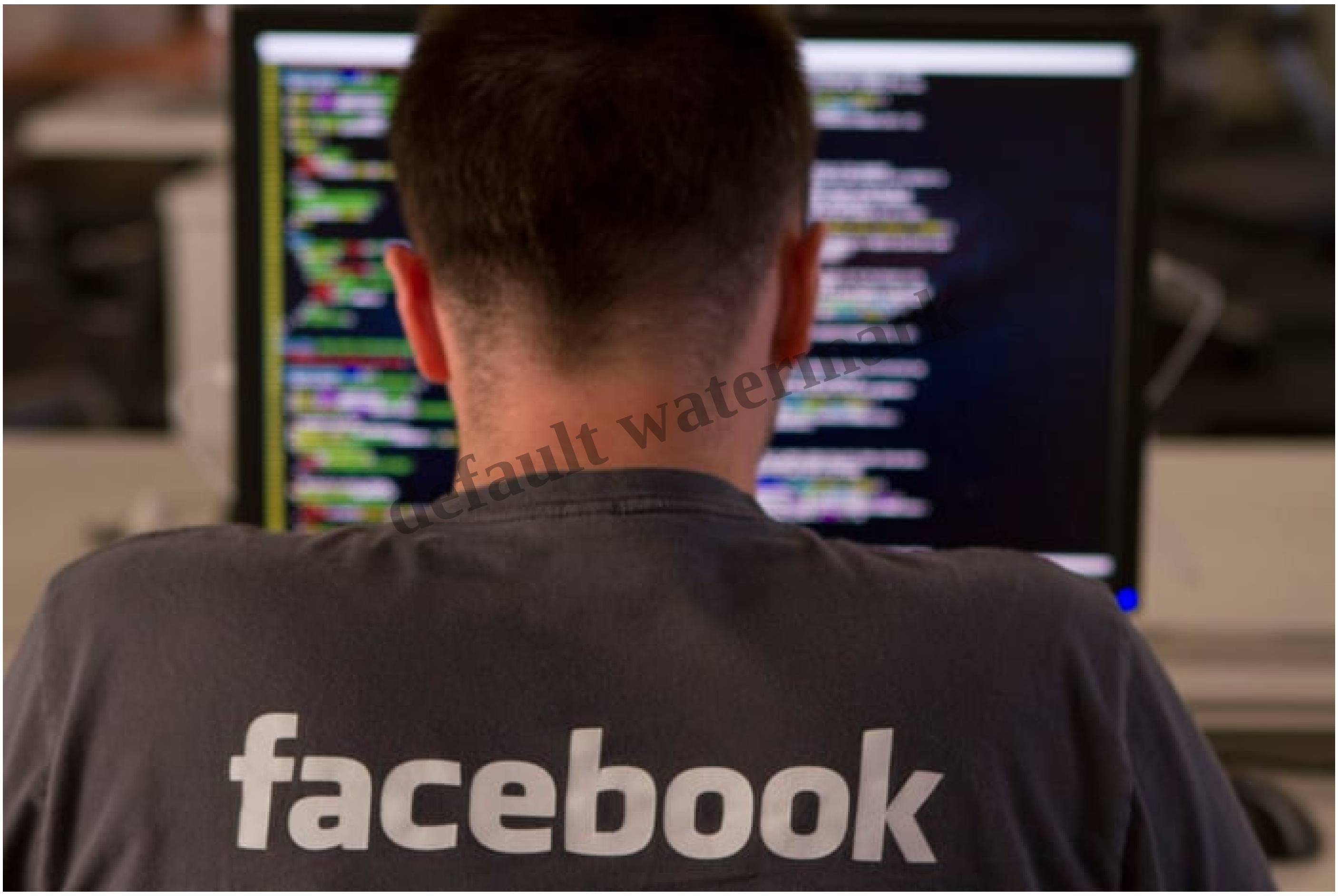

Image source: Facebook.

Facebook is also in the early stages of completely monetizing its platforms. Remember, beyond Facebook, which already houses ads, the company owns the rights to Messenger, Instagram, and WhatsApp. These are four of the seven most-visited social media platforms in the world, and with the exception of Facebook's home site, it's been slow-stepping the monetization of its other platforms. Soon, though, ads, video, and streaming could offer bountiful, fast-growing channels of revenue for Facebook, thereby allowing it to maintain its torrid growth pace as its FAANG peers begin to see their top-line ascent taper a bit.

It's important not to overlook the innovation factor here, either. Aside from trying to introduce its own cryptocurrency, known as Libra, Facebook introduced Portal TV in September. This video chat and streaming device allows users to make video calls using their television over WhatsApp or Messenger. Facebook loves the idea of smart tech in people's homes, and this is just one of the many ways it's looking to engage its users and pad its revenue stream.

On a value basis, you won't find a more attractive FAANG stock to buy than Facebook.

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