



Beginner Investors: How to Spot Value in This Frothy Stock Market

Description

The stock market may be a tad on the [frothy](#) side, but that doesn't mean there are zero bargains to be had for beginner investors, especially on the less-loved **TSX Index**. If you're willing to look to areas of the market that others have shunned, you can still find deep-value opportunities out there. I'd argue that looking to such undervalued plays today makes far more sense than waiting around in cash for a market correction, which may not happen in a timespan you want it to.

Don't underestimate the opportunity costs of hoarding cash for extended durations!

It's always a good idea to have enough cash on the sidelines to be ready for the buying opportunities as they come. But like it or not, overweighting yourself in cash with the intention of putting it to work after the next market crash or correction hits is timing the market. And I believe the opportunity costs of being caught with too much cash (upside risks) can have the potential to outweigh [downside risks](#), even in a seemingly frothy stock market, with valuations on most names skewing on the higher end.

As you may have heard, the unprecedented magnitude of stimulus and the potential for central bank complacency could pave the way for higher inflation, as the world economy recovers from the COVID-19 crisis.

Inflation on the horizon?

Of course, there's no guarantee that we'll be in for inflation that spikes above the 2% mark over the next 18 months. Many pundits see a modest rise in inflation but not an alarming one that would spark a rush for alternative assets like gold or cryptocurrencies like Bitcoin. Heck, some folks may think we're due for modest reflation or even deflation.

It's hard to know what we'll be in for. But as a beginner investor, you should be ready if we are due for a problematic spike in inflation. That means not underestimating the risks of overweighting yourself to

cash at any instance.

On the one hand, you've got to be mindful of the insidious effects of an unchecked uptick in the rate of inflation. On the other hand, there are risks involved with investing in a frothy stock market that seems overdue for a vicious sell-off. You've got to strike the right balance between cash and risk-on assets such that you mitigate inflation risks (and the risk of missing out on upside) with the downside risks involved with equities. I believe many risk-averse beginner investors or savers discount the former risks in favour of the latter. If we are, in fact, due for inflation's return, one must be hedge their bets and strike the asset allocation that carefully considers both upside and downside risks.

As you may have heard, stocks may be the only game in town. And frothy valuations do seem justified, given the pandemic-plagued, "lower-for-longer" type of environment we find ourselves in. Regardless, beginner investors should seek to find the perfect balance between risk-off assets like cash, risk-on assets like equities, and hedging assets like precious metals or even Bitcoin, if you're willing to lose a majority (or the entirety) of your invested principal.

Fortis: A risk-averse value play for beginner investors

If you're overweight cash, it still makes sense to be a buyer of less-loved stocks like **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)). While the S&P 500 has surged above the full-year price targets of many big-league sell-side analysts, there's no telling when the next pullback will hit or just how much of the gains will stand to be surrendered.

With Fortis, you'll get paid a juicy 4%-yielding dividend, and the lower beta will allow you to sleep better at night, knowing you're unlikely to feel the full force of the next market sell-off. I view Fortis as a bond proxy, and although the dividend payout isn't technically a guarantee, I think it's the closest thing to a guarantee you'll find in the world of "risk-on" assets.

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