Warren Buffett: Be Careful How You Bet on Markets

Description

This week's growth-to-value rotation was most unkind to beginner investors who've been chasing momentum plays to score quick gains.

In numerous prior pieces, I warned new investors that the outperforming strategy of chasing and neglecting value was likely to leave investors at great risk of losing their shirts once the next growth-to-value rotation had a chance to hit.

"While chasing momentum has been a winning strategy last year, I think that old-fashioned value investing will win once the dust has a chance to settle and Mr. Market has a chance to correct the frothier parts of this market," I wrote back in January.

Indeed, a so-called growth-to-value rotation is what Mr. Market had in store to start the week.

Tuesday morning's trading session was a continuation of the rotation out of the frothiest growth names and into neglected "value" names. It was an absolutely vicious rotation, with the growthiest of tech stocks crashing in the morning before posting a full recovery into the close.

For the second straight day, the value-heavy **Dow Jones Industrial Average** (DJIA) was mostly spared from the selling chaos, as too was the commodity-heavy **TSX Index**.

While there's no telling whether we've witnessed the last of this latest growth-to-value rotation, I do think it would be wise for investors to stop chasing the overvalued "sexy" stocks that trade at nosebleed-level valuations. Such names are harder to evaluate and should be passed up on the latest dip in favour of unfairly-hit stocks like **Apple** that are more likely to trade at a discount to its intrinsic value.

Steering clear of damage as growth-to-value rotation continues

Now, I've never been a fan of the growth or value categorization. Heck, I think the shares of some of the fastest-growing firms out there can, in fact, be a "value stock" if one stands to pay a price that's below its intrinsic value.

As Warren Buffett's right-hand man Charlie Munger once put it, "all investing *is* value investing."

High growth, low growth, it doesn't really matter. If you're buying shares of companies at a price below intrinsic value, you're a value investor.

The so-called rotation we witnessed this week, I believe, is more of a long-overdue correction in the severe pockets of overvaluation within the growthiest areas of the market.

Many fairly-valued (and even undervalued) growth stocks also got dragged down. I think such undervalued "growth" names are buys on the latest dip before they stop trading hand-in-hand with the priciest momentum stocks out there (think the hottest plays like **Tesla**, **Ballard Power Systems**, and **Shopify**).

Growth-to-value rotation or healthy correction in severely-overvalued momentum stocks?

During last years' annual meeting, Warren Buffett sombrely stated that investors must be careful *how* they bet on markets. If you're chasing momentum or are not analyzing the fundamentals, you're speculating and will likely be at greater risk of skating offside.

In response to the recent rotation, I wouldn't look to dump so-called "growth" stocks if they still trade below your estimate of their worth. I'd still view those as "value" stocks despite their solid growth profiles.

If you are holding onto a stock that's blasted off above your estimate of its intrinsic value, I'd say it can't hurt to take a profit. You can always repurchase it at lower prices if it turns out this "growth" correction isn't over yet.

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