Value Stocks Will Survive a Market Crash

Description

This past year has seen a massive divergence in the stock market. While tech stocks have rocketed forward, with the NASDAQ up 50% in 12 months, value stocks have underperformed. This can be explained by the COVID-19 pandemic. While many tech stocks actually grew their earnings because of the COVID-19 e-commerce boom, most value stocks saw earnings decline, as the pandemic rocked airlines, retail, manufacturing, and more.

Today, we see the result of this divergence. Tech stocks are at or near all-time highs, while many value stocks are barely above their March 2020 levels. In this market, it's value stocks that have the most to gain. In fact, they could be perfectly positioned to survive a future market crash that mainly affects tech stocks.

Turning the corner on COVID-19

While it's too early to say for sure, it looks like we may be turning a corner on COVID-19. Vaccines from various pharmaceutical companies are now widely available, and large numbers of people have already received them. If this progress continues, then the economy will be able to re-open. In this scenario, it's value stocks that will have the most to gain. Mass re-opening will allow retailers and airlines to get back to business as usual, and banks will be able to lower their provisions for credit losses. As a result, their earnings will surge.

Tech stocks, however, may see revenue growth decelerate, as e-commerce shopping could slow down. Currently, tech stocks are priced based on their recent massive earnings growth. However, there's a plausible reason for that to slow in 2021. Indeed, **Facebook** and **Shopify** have already said that e-commerce will slow. We could see tech stocks decline on disappointing earnings. Value stocks, however, could rise.

Smart money is moving into value

Another sign that value is set for gains is the fact that smart money is moving into it. Just recently, Warren Buffett bought back $24 billion worth of **Berkshire Hathaway** stock, Ray Dalio said that value stocks were getting cheap, and Wisdom Tree Asset Management counselled investors to go long value. Those are just a few major examples. The thesis that value would rise eventually had been prevalent from the beginning of the COVID-19 pandemic. It's only now that we're beginning to see the big players make moves. Quite possibly, their buys will send value stocks higher.

A Canadian value play

If you're looking for a Canadian value play for your own portfolio, look no further than **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). Just recently, it posted its best-ever pandemic quarter, with GAAP and adjusted earnings both up 10%. The bank did post a blowout Q3 in GAAP terms, but that was due to a one-time gain on the sale of TD Ameritrade. Q4 was its first quarter of double-digit growth with adjustments since the start of 2020.

Despite that fact, TD trades at only 12 times earnings and has a 4% dividend yield. The stock certainly looks cheap. And if the economy re-opens this year, it eventually *will* prove to have been cheap at today's prices. That makes it a solid Canadian value stock to consider for the post-COVID era.

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Date
2025/08/23
Date Created
2021/03/02

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