3 Places to Shop for Value in a Pricey Market

Description

The Canadian stock market has appreciated close to 70% since the bottom of the pandemic market crash last year. The economy has been more resilient than expected with the gross domestic product (GDP) falling only about 5.4% in Canada versus 9.9% and 6.4%, respectively, in the U.K. and the European Union, according to *TD Economics*. A part of the resiliency came from government benefit programs that have helped Canadians and Canadian businesses in need.

Additionally, quantitative easing or money printing by central banks has made fiat currencies worth less than before. A side effect of this is contributing to the North American stock markets making all-time highs.

With this backdrop in mind, here are three places to shop for value in a pricey market.

Gold stocks

Technically, money printing leading to fiat currencies losing value should drive gold prices higher. To protect against inflation, money used to flow to gold.

However, a portion of the capital that traditionally went to gold has gone into cryptocurrencies instead. Even funds and specific companies are investing in bitcoin or accepting bitcoin as a currency, for example.

Therefore, gold-stock valuations remain low. Among the large gold miners, **Barrick Gold** (TSX:ABX)(NYSE:GOLD) remains one of the best-value investments in the industry. It's awarded an investment-grade S&P credit rating of BBB, which aligns with its large-cap peers.

The analyst consensus 12-month price target of US$31 per share represents 50% near-term upside potential. Compared to its price gains prospects, the gold stock's 1.7% is icing on the cake.

Barrick's 2020 return on equity was about 11.7%, which is decent. Its results will be highly tied to gold prices. Specifically, gold sales made up 92% of its 2020 revenue. As quantitative easing is still in progress, gold prices should logically grind higher.

Other than gold stocks, another place to shop for value is the energy sector.

Energy stocks

Energy stocks are still relatively cheap compared to the market. However, there's a good reason for that. The performance of many energy stocks is highly tied to energy prices, which could be somewhat erratic. This fact particularly makes leveraged energy stocks high-risk investments.

Thankfully, you can get exposure to a low-risk niche in the energy sector — large-cap energy infrastructure stocks, like **TC Energy** (TSX:TRP)(NYSE:TRP), which generate much more stable cash flows than oil and gas producers. Importantly, investors get a safe, juicy yield of about 5.9% from TC Energy for starters.

Analysts think TC Energy stock has about 17% upside potential over the next 12 months. Understandably, investors buying energy stocks might be looking for greater upside. However, aiming for price appreciation in oil and gas producers is a guessing game at best. You might be better off looking for value in small-cap stocks instead.

Small-cap stocks

At any time, the small-cap space in the stock market has the greatest number of hidden gems to be found versus mid-cap and large-cap stocks.

Here's why. First, most investors don't bother looking in small caps, which lack analyst coverage. Second, small caps are generally higher risk because they don't have the long-term track records that larger companies do. So, it's harder to tell which small-cap stocks could do well.

That said, if you pick the right small-cap stocks, you'll enjoy very lucrative gains and grow your wealth much faster. It's important not to bet on one or two small-cap stocks because picking the wrong ones can lead to losing the entire investment or close to it.

The key takeaway is that small caps outperform large caps as a group. Therefore, in a market downturn, retail investors should highly consider investing in small-cap ETFs.

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2. Energy Stocks
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2. NYSE:TRP (Tc Energy)
3. TSX:ABX (Barrick Mining)
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