Pivot to Value: How Cheap Stocks Can Beat Growth Stocks!

Description

2022 is looking like a great time to pivot to cheap stocks.

Recently, **Goldman Sachs** predicted that the Federal Reserve would do four interest rate hikes in 2022 instead of the expected three. Tech stocks sold off Monday morning on that news, before recovering in the afternoon. The selloff in growth stocks was predictable. The higher interest rates go, the less appealing "risky" returns become. So, tech and other growth names tend to suffer when interest rates rise.

It really looks like the Federal Reserve is going to go ahead with this. Inflation remains high, and people are clamouring for the Fed to do something about it. At this point, U.S. rate hikes are all but certain. It's the same story in Canada. The Bank of Canada has all but confirmed that it will be hiking interest rates to 0.5%, which isn't outrageously high but is still higher than what we previously had.

In this environment, it makes sense to pause for a moment and reflect on your portfolio. While 0.5% interest rates won't kill growth stocks forever, it's worth considering whether some value names might be worth adding. In this article, I will explore how value stocks can sometimes outperform growth stocks, using examples of two TSX stocks that have moved in opposite directions over the last 12 months.

Cheap stock: TD Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a classic value stock. It trades at 12.45 times earnings, four times sales, and 3.6 times operating cash flow. These are all solid metrics. Despite the cheap multiples, though, the bank has been growing.

In its most recent quarter, TD delivered solid performance, with adjusted earnings up 30% year over year. As you'd expect, the stock has followed suit. Since the start of 2021, TD stock has rallied 35%, beating the S&P 500 over the same timeframe. If interest rate hikes lead to higher profits for Canadian and U.S. banks, then TD could grow more than expected next year, leading to even more stock price appreciation.

Over the last year, TD has not only done well; it has also outperformed a great many growth stocks. In the next section, I will take a look at one growth stock that's nowhere near TD's 12-month returns.

Growth stock: Lightspeed

Lightspeed Commerce (TSX:LSPD)(NYSE:LSPD) is a Canadian growth stock that has fallen 45% over the last 12 months. Thanks to a scathing short report by **Spruce Point Capital** and a widening net loss in the most recent quarter, the stock has fallen out of favour. Unless something really good happens in the next quarter, it will stay out of favour.

LSPD is growing revenue at a lightning-fast pace — 193% in the most recent quarter. The problem is that costs are growing even faster than revenue, so the company's net losses are rising. Lightspeed has been accused of spending too much money on acquisitions. Cannabis stocks often had this same accusation made about them before they collapsed. To date, they haven't recovered to their 2018 highs.

If Lightspeed keeps on the path it has been going on, it will end up just like weed stocks. So, it's no wonder this growth stock can't keep up with TD. It's just not showing investors the money.

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