Why I’m Still Loading Up on Value Stocks in September

Description

It’s been nearly a year since I started pivoting away from growth stocks to value stocks, and I’m still heavily in favour of value. Although growth stocks — stocks with high growth rates — are starting to look too cheap, value stocks still have a lot going for them. Many value stocks, such as oil companies, are actually growing faster than traditional growth sectors (e.g., technology), and others offer very high dividend yields. While I’ve bought some tech stocks over the last 12 months, they have mainly been cheap tech stocks that aren’t at risk of going bankrupt.

default watermark

In this article, I will explore two big reasons why I’m still picking value stocks over growth stocks in September.

Interest rates are still going up

One big reason why I prefer value stocks to growth stocks this year is because interest rates are going up. When interest rates go up, risk-free investments (e.g., savings accounts) gain higher yields. As a result, risky assets become less attractive. The higher the expected growth rate, the more the value of an investment declines when interest rates rise. And if a previously high-growth investment loses its high-growth status, then it declines even further.

This is one reason why I’ve been buying **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock this year. With a five-year revenue-growth rate of 8.5% per year, it never had such growth that it reached an insane valuation. Yet it is still delivering a modest amount of growth. In its most recent quarter, TD Bank posted flat (i.e., unchanged) revenue and modest growth in adjusted earnings. The earnings growth was quite a feat considering that most banks are seeing their earnings go down this year.

To be honest, I think that other banks besides TD are great bargains today as well. But TD is delivering better performance than the average bank is this year.

Many value stocks have high dividend yields

Another reason why I like value stocks is because many of them have high dividend yields. Technically, dividends are irrelevant to your total return, but they're useful when it comes to generating cash flow in bear markets.

This is where energy stocks like **Suncor Energy** (TSX:SU)(NYSE:SU) shine. These companies have been increasing their dividends this year, so they still have high yields, despite all their gains. In its most recent quarter, Suncor boosted its dividend payout by 12%. In the same period, **Cenovus Energy** hiked its payout by an astonishing 200%! I only have a tiny bit of my money invested in energy stocks right now, but I made some short-term trades on Suncor earlier this year that I profited on.

I still think that the oil and gas sector presents opportunities for long-term investors, though there are other value sectors I like better.

Foolish takeaway

2022 has been a great year for value stocks. In the same year when tech stocks have crashed, sectors like energy and utilities have outperformed. Banks are still down a bit for now, but their revenue growth points to a future that's better than the recent past. On the whole, I'm happy to have purchased value stocks this year, and I plan on buying more.

default watermark

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SU (Suncor Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Investing

Date
2025/09/12
Date Created
2022/09/13
Author
andrewbutton

default watermark

default watermark