



Finding Value in a Beaten-Down Market

With Wall Street's recent seismic shifts, true stock jockeys may be tempted to buy on the dips. But this desire raises an important question: Is a low price by itself a true measure of a value stock? If an investor plans to hold a stock for the long term, how can an investor gauge its future potential compared with the broader market?

Value Investing Defined

Value stocks are those that have fallen out of favor in the marketplace and are considered bargain-priced compared with book value, replacement value or liquidation value. Value fund managers typically invest only when they believe the underlying company has good fundamentals. Many value investors think that a majority of value stocks are created because investors overreact to negative events, which can include:

- Disappointing earnings
- A negative outlook for the industry
- A regulatory setback
- Substantive litigation

The idea behind value investing is that stocks of good companies will bounce back in time when a company overcomes a short-term obstacle and investors ultimately recognize fair value. But this recognition may take time or, in some instances, may never materialize.

Comparative Analysis

Investors looking to avoid a value mistake may want to compare a stock's recent trend with a peer group or with a broad market index. Here are some other suggestions:

- Consider whether a stock has dropped more than the average stock in the S&P 500 during the past three months.
- Examine whether earnings estimates are being revised downward faster when compared with a peer group.
- Compare analyst estimates of future profit margins to historical margins. If expectations for future profits exceed past earnings, the company could end up disappointing investors.

Another technique for potentially avoiding a value mistake is to look for stocks paying dividends. Dividends historically have been seen as a sign of management's confidence in healthy cash flow over the long term, as well as an indicator that management's interests align with shareholders. Even if a stock price languishes for a period of time, a dividend provides an investor with something in the way of a return. Note that dividends are not guaranteed, and a company can reduce or eliminate a dividend at any time.

Perhaps the best strategy for avoiding a value mistake is to combine value stocks with growth stocks, international stocks, and other types of equities to pursue diversification. Although there are no guarantees, owning some of each could help to balance an equity portfolio over the long term.¹

Source/Disclaimer:

¹Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors. Investing in stocks involves risks, including loss of principal. Diversification does not ensure a profit or protect against a loss in a declining market.



Financial
Planning,
LLC

**2150 S. 1300 E., Suite 500
Salt Lake City, Utah 84106
801-326-1974**

August 2011 — Z Financial Planning, LLC specializes in providing fee-only financial planning on an hourly, project or comprehensive basis to small business owners, families and retirees along the Wasatch Front. For a no-cost initial consultation about this or any other questions regarding your financial situation call Jim Zeberlein at 801-326-1974 or 801-649-5473 or visit www.ZFinancialPlanning.com This column is provided by James W. Zeberlein, Jr. CFP®. CERTIFIED FINANCIAL PLANNER™, CFP® and federally registered CFP (with flame logo) are certification marks owned by Certified Financial Planner Board of Standards. These marks are awarded to individuals who successfully complete CFP Board's initial and ongoing certification requirements.