Horizons Asset Management

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John Wailgum: Individual Stock Analysis

Before beginning the research for my individual stocks our group collaborated together to find out that we wanted to lean towards value stocks, rather than growth-oriented stocks. We decided to plan on our 20-stock portfolio being marketing towards soon-to-be and future retirees who do not want their portfolio to be risky and have more diversification with guaranteed long-term growth + dividends. When setting out to start my research for my five individual stocks I wanted to blend some large cap stocks who will be high on the value stock and market capitalization grid with little risk, with some smaller capitalization stocks with more risk. These small cap stocks would therefore have less weight in our portfolio due to their riskiness but would offer the potential for growth in our portfolio with the downside protection being the weightage. In deciding where I should look for these two types of stocks, I wanted to begin by truly understanding what makes a company a value or growth stock. One term that helped with my decision for my large cap stocks is blue chip. Investopedia describes blue chip companies as, “a stock issued by a large, well-established, financially-sound company with an excellent reputation. Normally, such companies have operated for many years, have dependable earnings, and usually pay dividends to investors” (Investopedia, 2024). In finding companies that fit this description, that would also fit into our portfolio, I ended up picking Walmart, Berkshire Hathaway, and Broadcom Inc.. Blue chip stocks are vital for large portfolios due to their stability, consistent dividend income, and moderate capital appreciation potential. These companies will provide a reliable foundation for mitigating overall portfolio risk and generating steady returns. Their inclusion also helps diversify risk across sectors, contributing to effective risk management. Overall, blue chip stocks play a crucial role in large portfolios by offering stability, income, and efficient long-term growth potential. In choosing Broadcom Inc. specifically, I wanted to put a “blue chip” company in the portfolio that would be in the technology sector. In recent memory the technology sector has been the fastest growing in the stock market with companies like Apple, Nvidia, and Microsoft, I wanted to include this sector in my portfolio due to the premier returns but also growth potential this sector has. For my final two stocks I followed this same reasoning for one of them, but I wanted to include smaller market capitalization stocks. I ended up with the companies Lear, and AEHR Test Systems, AEHR Test Systems being the technology sector company. While AEHR Test Systems is in the technology sector that is not the main reason I chose this stock. One vital fundamental for value stocks is the PEG ratio, which is the Price/Earnings Growth ratio. A PEG ratio under 1 is considered undervalued and a buy at that point in time. For the companies Lear and AEHR Test Systems their PEG ratio, at my time of research, is 0.4 and 0.6 respectively. This indicates that the market has not fully priced in the company's growth prospects, presenting an opportunity for us to acquire shares at a reasonable price relative to expected earnings growths. Also, with AEHR Test Systems being a small cap technology company it gives the portfolio the continuous innovation and growth of that sector. Finally, my five individual stocks are a good blend of three value stocks (blue chips), and two potential growth stocks (Lear and AEHR Test Systems) where the weighting will be heavily towards the value stocks in our final portfolio.

Works Cited:

https://www.investopedia.com/terms/b/bluechipstock.asp