

The Upside to Unloved Stocks

Editor's Note: TradeSmith offices will be closed for Thanksgiving on Thursday and Friday, Nov. 23 and 24. We hope you enjoy the holiday, and we'll return next week with more on the best ways to get the most out of your TradeSmith subscription.

The stock market has rallied strongly off the October low, with the S&P 500 Index up more than 7% in just the last month.

But beneath the stock market's surface, I spy a possible changing of the guard underway.

The market's gains this year have really all been about technology. The sector has rebounded for a gain of nearly 50%, following a brutal 2022 for tech.

So, it's no surprise the tech sector – especially the Magnificent 7 – has grabbed most of the headlines this earnings reporting season. Over 80% of tech-sector stocks beat earnings estimates this past quarter.

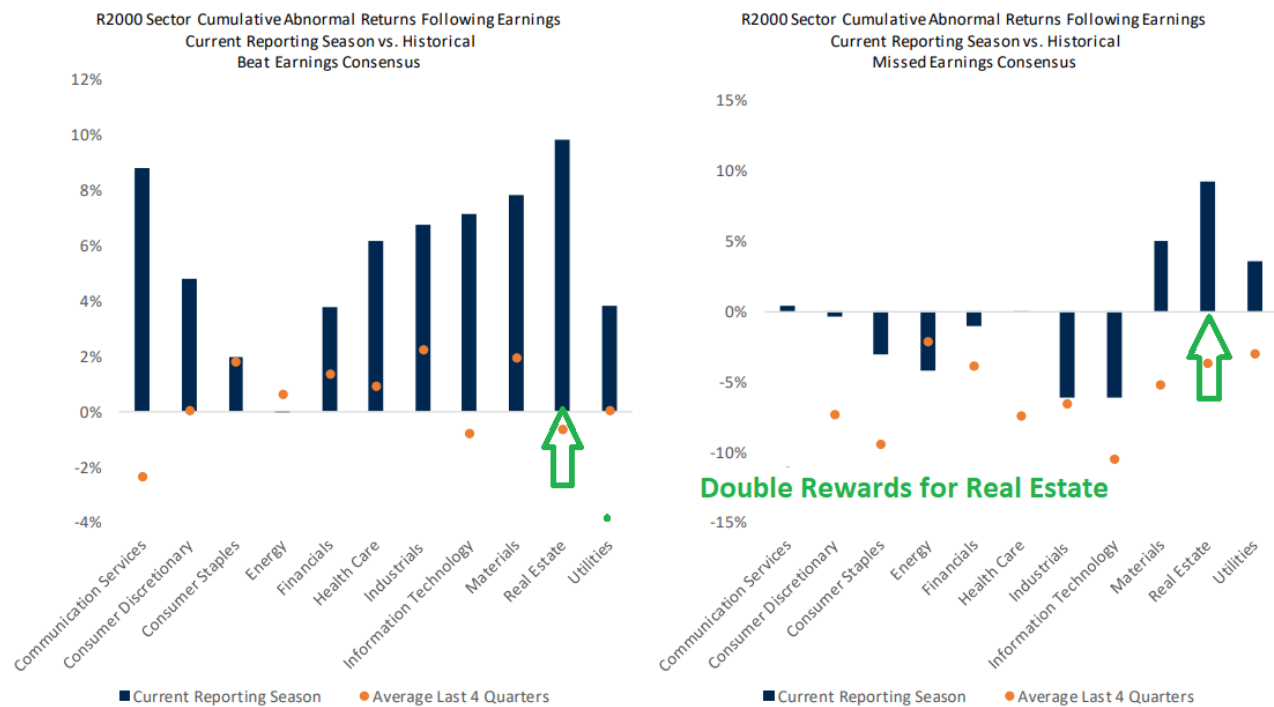
But also leading the market advance over the past month were some of the most downtrodden sectors. These include Financials, up 8.7%; Real Estate, up 10%; and Biotech, up 10.8%. This compares to a 7.3% gain for the benchmark S&P 500 over the last month.

This new leadership role for some of these out-of-favor Red Zone sectors is also apparent in recent earnings results.

And as you would expect, stocks beating EPS estimates this past quarter were rewarded, although the upside gains varied by sector, with tech stocks jumping about 7% on average.

However, stocks in out-of-favor sectors – *whether they beat estimates or missed them* – are posting even better gains, as you can see below.

Earnings Beats (left) are Typically Rewarded, But Last Quarter So were Some Misses (right)



Source: RBC US Equity Strategy, S&P Capital IQ/Clarifi, CIQ estimates. Current reporting season through 11/10/2023.

For instance, real estate stocks that beat EPS estimates were rewarded with an average 10% upside move, as you can see above at left.

But even EPS misses for real estate stocks were likewise rewarded (at right), with stocks up just under 10% even on disappointing results.

Meanwhile, EPS misses for tech-sector stocks are being severely punished as you would expect, with stocks that fall short of estimated results down more than 5% on average.

You can see a similar pattern in health care (of which biotech is a big subset) and financials when it comes to earnings surprises. Beats are rewarded, but misses are not being punished.

And I believe this apparent disconnect has everything to do with valuations.

Beaten-down biotech, real estate, and financial stocks have extremely low expectations right now, after poor market returns this year. As a result, stocks in these sectors also have low valuations. Therefore, even bad news seems good.

But technology is priced for perfection. So even good news is often not good enough for these stocks. And bad news for tech is punished severely.

For my money, I always want to take a closer look at stocks with this combination of:

- Low expectations (unloved),
- Low valuations (cheap),
- And going up even on bad news.

Some of the best buying opportunities are often found in these sectors as investor sentiment shifts from negative to *less bad*.

With that in mind I decided to run our Screener tool, part of *Ideas by TradeSmith*, early this week to identify stocks in these cheap and unloved sectors that were also moving up more than the stock market recently. Here's how to do it.

(Note: Access to the tool is included with all levels of *Ideas by TradeSmith*, *Trade360*, *TradeSmith Essentials*, and *TradeSmith Platinum*. And, I have access to *TradeSmith Platinum*, so your settings may look different from mine.)

Be sure you're logged in to [TradeSmith Finance](#). Then, click on the **Invest** menu and select the **Screener** tab. Then click on the green **+ Create New Screener** button.

Now, let's set up an easy screen to zero in on healthy, large-cap stocks from the unloved and cheap sectors that seem to be going up, even on bad news.

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Create new screener

+ Manage Filters

Health Status ☒ Green Zone ☒ Yellow Zone ☐ Red Zone

Trend ☒ Up ☐ Down ☒ Sideways

Markets ☒ S&P 500 (SPX) ☒ Nasdaq 100 (NDX) ☒ Russell 1000 (IWB) +

Sectors ☒ Financials ☒ Pharmaceuticals, Biotechnology & Life Sciences ☒ Real Estate

One Month Change

Display & Sort Results Show top Sort results by

Save As New Save Changes Run Screener

Here are the specific filters I included, with a brief explanation for each:

- **Health Status:** Green Zone and Yellow Zone = *healthy stocks*
- **Trend:** Up or Sideways = *stocks that aren't declining*
- **Markets:** S&P 500, Nasdaq 100, and Russell 1000 = *large-cap, liquid stocks*
- **Sectors:** Financials, Biotech (under Health Care), and Real Estate = *unloved sectors*
- **One Month Change:** more than 7% = *performance greater or equal to the S&P 500*

Now **Display & Sort Results** by Health and DESC (descending). This will give you the list of qualifying stocks, with the healthiest on top.

When I ran this screen, I got only 16 results, which isn't a surprise for such a narrow-focused screen. You might consider adding more markets (perhaps small- and mid-cap stocks) or including more underperforming sectors to boost your number of results.

Here are the top 10 stocks that made the cut.

[Saved Screeners](#) (16 results)


☐	Ticker	Rating	Health	VQ%	Billionaires	Strategies	Volume	P/E Ratio	Trailing Divi...	Market Cap	Sector
☐	CBOE Cboe Gbl Mkt	Strong Bullish	▶ 1y+	18.59%	2	1	1,136,518	26.51	1.16%	\$18.6B	Financials
☐	KKR KKR & Co. Inc	Bearish	▶ 8m+	28.63%	4		2,358,290	21.39	0.97%	\$59.2B	Financials
☐	FCNCB First Citizens Bc B	Strong Bullish	▶ 6m+	31.66%			63	1.66	0.23%	\$17.3B	Financials
☐	COIN COINBASE GLB-A	Bearish	▶ 5m+	69.83%	1		7,373,822	-31.32	N/A	\$19.0B	Financials
☐	DLR Digita Rlty REIT	Bullish	▶ 4m+	23.46%	1	2	1,542,659	1.49	3.63%	\$40.7B	Real Estate
☐	TW TRADEWEB MKTS-A	Bullish	▶ 4m+	20.94%	2		514,502	54.29	0.37%	\$10.7B	Financials
☐	FNF Fidelity Nat Fin	Strong Bullish	▶ 3w+	21.75%	2	2	1,721,890	18.67	4.00%	\$12.3B	Financials
☐	XP XP A	Strong Bullish	▶ 2w+	43.98%			6,814,805	3.64	2.47%	\$12.4B	Financials
☐	SPG Smn Prp Grp REIT	Bullish	▶ 2w+	24.34%			1,121,288	15.73	6.04%	\$39.7B	Real Estate
☐	EPR EPR Properties REIT	Bullish	▶ 2w+	26.67%		2	793,811	20.37	7.19%	\$3.5B	Real Estate

Almost all stocks that made the list were financials or real estate.

Mike Burnick's Bottom Line: Whenever you sense a shift in sector leadership, especially when cheap, unloved sectors suddenly start to perform good even on bad news – our *TradeSmith* Screener tool can help you quickly zero in on possible undervalued stocks to buy among the new leading sectors.

Good investing,

Mike Burnick