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How to select stocks

ALWAYS DIVERSIFY: BUILDING A WELL-BALANCED PORTFOLIO

Breakdown of key sectors and who they're best suited for.

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Investing isn't just about picking stocks – it's about understanding how different sectors respond to economic conditions. Some industries thrive when economies boom but struggle in recessions, while others provide steady returns no matter what.

By diversifying across sectors, investors can reduce risk and improve long-term performance. This guide breaks down key stock sectors, their role in a portfolio and who they're best suited for.

PROTECTION. Whether you're a conservative investor seeking stability or a high-risk investor chasing returns, sector diversification is essential for long-term success. Picture: AdobeStock

1. Cyclical stocks – riding economic waves

What they are:
Cyclical stocks perform well in economic upswings but decline during downturns.

Role in a portfolio:
Offers high growth potential during strong economies but requires tolerance for volatility.

Suitable for:

- Investors with a higher risk tolerance; and
- Those looking to capitalise on economic recoveries.

Examples of cyclical stocks:

- JSE: Richemont (CFR) – Luxury goods giant (Cartier, Montblanc) benefiting from wealth.
- JSE: Naspers (NPN) – Tech-driven holding company with a stake in Tencent.
- Global: Tesla (Nasdaq: TSLA) – A leader in electric vehicles, sensitive to economic conditions.
- Global: Nike (NYSE: NKE) – Sportswear brand dependent on consumer spending.

2. Defensive stocks – stability in uncertain times

What they are:
Defensive stocks belong to industries that stay resilient like health care, consumer staples, utilities.

Role in a portfolio:
Provides stability and protection during market downturns.

Suitable for:

- Conservative investors seeking stability; and
- Retirees.

Examples of defensive stocks:

- JSE: Shoprite (SHP) – Leading grocery retailer.
- JSE: Aspen Pharmacare (APN) – Pharmaceutical company producing essential medicines.
- Global: Johnson & Johnson (NYSE: JNJ) – A healthcare giant with consistent earnings.
- Global: Procter & Gamble (NYSE: PG) – Consumer goods leader with essential products.

3. Growth stocks – investing in future leaders

What they are:
Growth stocks are companies focused on high revenue expansion, often reinvesting profits instead of paying dividends.

Role in a portfolio:
Provides long-term capital appreciation but can be volatile.

Suitable for:

- Investors with a long-term horizon; and
- Those with higher risk appetite for high potential returns.

Examples of growth stocks:

- JSE: Prosus (PRX) – Major global tech investor (stake in Tencent, e-commerce holdings).
- JSE: Purple Group (PPE) – Owner of EasyEquities, benefiting from digital investment trends.
- Global: Amazon (Nasdaq: AMZN) – A leader in e-commerce and cloud computing.
- Global: NVIDIA (Nasdaq: NVDA) – A top AI and semiconductor company.

4. Value stocks – buying undervalued companies

What they are:
Value stocks trade below their intrinsic worth, often due to temporary market mispricing. They're usually well-established companies with strong fundamentals.

Role in a portfolio:
Provides steady returns and less volatility than growth stocks.

Suitable for:

- Long-term investors looking for undervalued opportunities; and
- Those preferring a lower-risk approach.

Examples of value stocks:

- JSE: Absa Group (ABG) – A major banking institution trading at attractive valuations.
- JSE: British American Tobacco (BTI) – A stable dividend payer with global exposure.
- Global: Berkshire Hathaway (NYSE: BRK.B) – Warren Buffett's company, focused on value investing.
- Global: Unilever (LSE: ULVR) – Consumer goods company.

5. Income stocks – generating passive cash flow

What they are:
Income stocks pay consistent dividends. These include real estate investment trusts (Reits), telecoms, and financial services.

Role in a portfolio:
Provides steady income and lower volatility.

Suitable for:

- Retirees and income-focused investors; and
- Those looking for dividend-paying stocks.

Examples of income stocks:

- JSE: Growthpoint Properties (GRT) – A major Reit offering stable dividends.
- JSE: MTN Group (MTN) – A leading telecom provider with regular dividend payments.
- Global: Coca-Cola (NYSE: KO) – A dividend aristocrat with steady payouts.
- Global: JPMorgan Chase (NYSE: JPM) – Top global bank with good dividend performance.

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