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VALUE INVESTING

Large-Cap Value Stocks Could Be Long-Term Winners. Think MetLife and Coca-Cola.

By Teresa Rivas

The new year is just over a month old, but it has been dominated by the spectacular rise and fall of speculative stocks and a continuation of the small cap rally. In this kind of environment, few people may envy a large-cap value investor, but Randall Eley thinks slow and steady wins the race.

Identifying as a large-cap value investor these days "takes a lot of courage...or a naiveté" Eley jokes. Yet as chief investment officer at Edgar Lomax, and the portfolio manager of the Edgar Lomax Value fund (LOMAX), he has time on his side. A strong track record of past performance helps him tune out some of the near-term noise and focus on the core strategy of buying large, profitable well capitalized companies at a discount.

"One of the most important ingredients of a successful investment plan is patience," he says. "So we're comfortable structuring portfolios that we think are going to perform strongly over lengthy periods of 10 years or more."

While large cap value may not be in fashion at the moment, Eley argues that it's still a successful strategy worth pursuing, especially given that these companies also tend to have higher-than-average dividend yields. While many of his holdings didn't shine in the pandemic-dominated 2020, he says he had the opportunity to invest in big well-managed companies that aren't "just sitting dead in the water," but making adjustments for future growth. When stronger earnings do return for these stocks, they are likely "to catch most observers by surprise, and we'll get that outperformance we're looking for."

His favorite areas of the market now are energy, financials, and health care. While the S&P 500 weights these categories at roughly 2.5%, 10%, and 13.5%, they stood at 8%, 16%, and 21.5% of the portfolio at the start of the year.

Energy has been out of favor for some time, but Eley argues that a lot of the pandemic-related disruption will prove temporary, while the pressure to transition away from fossil fuels is a longer-standing issue that management teams have been focused on for years. While the sector has picked up this year, he believes that it hasn't "even begun to burn out its potential."

Companies like Exxon Mobil (XOM) and Chevron (CVX) are companies "with high dividend yields that management seems determined to keep paying and run conservative operations...there is a lot of incentive to run streamlined, profitable operations and consistently distribute part of those profits to shareholders."

His favorite financials include Allstate (ALL) and MetLife (MET), but he believes the group as a whole looks attractive, as many investors were fearing a repeat of the Great Recession that never materialized. He notes that banks were wise to set aside large loan loss reserves, given the uncertainty of the pandemic, even as these moves underscored that worry. Yet the picture brightened considerably for the group late last year, and can continue to do so, he believes.

Health care may be an obvious focus for many investors, given the rollout of the Covid-19 vaccine, but Eley notes that his firm focuses on companies "that were profitable all along," regardless of their positioning in the race for herd immunity, although Pfizer (PFE) is one of his biggest holdings in this sector.

Eley doesn't hold much in the consumer sector, but he likes Walgreens Boots Alliance (WBA), and Coca-Cola (KO), which have struggled recently. He believes that Walgreens, his largest position in the sector, will ultimately be able to execute a turnaround, and he called Coke—one of Barron's favorite stocks for 2021, a solid holding.