Cyclical Stocks

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Cyclical company: needs strong economy in order to perform well. Usually their overall sales are upward, but the economic cycle causes earnings to drop. Examples are:

* Nucor (NUE)
* Caterpillar (CAT)
* DuPont (DD)

Secular company: growth remains consistent regardless of the economy. Businesses that produce food, drink, drugs, cigarettes are in this category. They are basically recession-proof and are sometimes called defensive stocks.

Evaluating cyclical stocks using the SSG:

* Chart is not up, straight, and parallel
* Measure peak to peak to determine growth rate. Each peak should be higher than the last.
* The low price could represent the low price for the next business cycle.
* P/E valuations are often more favorable when high--just the opposite of a secular company. (When earnings are at their low point, that increases the P/E; so when the ratio is high because of low earnings, it's a more favorable situation for investors.) Peter Lynch says this is the time to start buying.
* When the P/E is low due to high earnings, it's usually a sign that the company is at the end of a prosperous interlude. Unwary investors are holding on to their cyclicals because business is still good, but this will soon change.

\*Remember that the stock market usually anticipates changes in the business cycle before the earnings actually change for the cyclical companies.