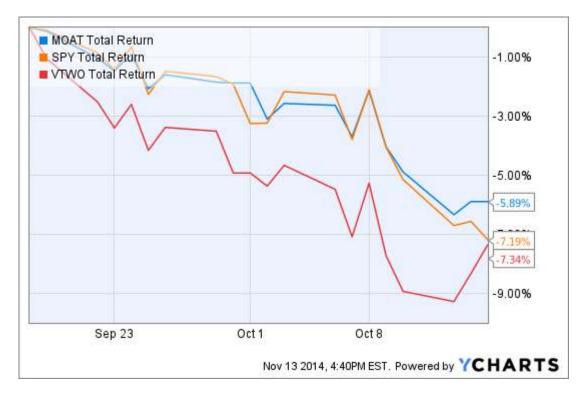
Beaten Up Wide Moat Stocks For a Jittery Market

While the market has surged back to avoid a classic correction (loss of 10%-20%), the recent selloff is a good reminder of what sorts of stocks tend to do best when downside volatility strikes.

Established and dominant companies, with one or more definitive competitive edges, often hold up best, as investors who want to maintain equity exposure will often rotate out of riskier fare. Moreover, the big, wide moat stocks tend not to trade at high multiples in the first place, and thus aren't as exposed to major downside in a down market.

However brief the recent sell off was, the Market Vectors Wide Moat ETF (MOAT) outperformed both the SPDR S&P 500 ETF (SPY) and the Vanguard Russell 2000 ETF (VTWO), a proxy for small cap stocks.



MOAT Total Return Price data by YCharts

To be clear, the wide moats tend to lag in strong markets. But as we've pointed out before, the long-term performance of the underlying index this ETF is based on -- Morningstar's Wide Moat Focus Index -- has shown net outperformance over periods that include both up and down swings. (Full disclosure: Morningstar is an investor in YCharts.)

The 150 or so stocks that have earned the wide moat designation from Morningstar trade as a group at about a 2% premium to fair value. (Another qualitative assessment by Morningstar's equity analysts.) That's right in line with all stocks Morningstar assigns a fair value to. But that's just the average. A handful are in the midst of enough turmoil/bad market sentiment that they trade at decent discounts to their fair value.

The headwinds pushing down IBM (IBM) have been so significant that Morningstar recently reduced its fair value estimate from \$212 a share to \$196. That still gives investors a near 20% discount to fair value cushion after IBM's most recent round of "this is going to take a long time to turn around" results sent the price plummeting:



IBM data by YCharts

At a trailing PE ratio just north of 13, IBM certainly isn't terribly expensive. But you're also buying into a turnaround that looks to need many quarters to play out.

Meanwhile, wide moater Qualcomm (QCOM) doesn't seem to have near the systemic issues confronting IBM. The question isn't if Chinese manufacturers will pay the royalty fee on Qualcomm's CDMA tech that is the backbone of 3G smartphones. The investigation/spat is about how high the royalty will be. Yet the market was clearly spooked, sending the stock down more than 10% recently.

That has brought Qualcomm's price down to a 13% discount to Morningstar's estimate of fair value. Not huge, but not nothing either. (More on YCharts' Qualcomm thoughts here.)

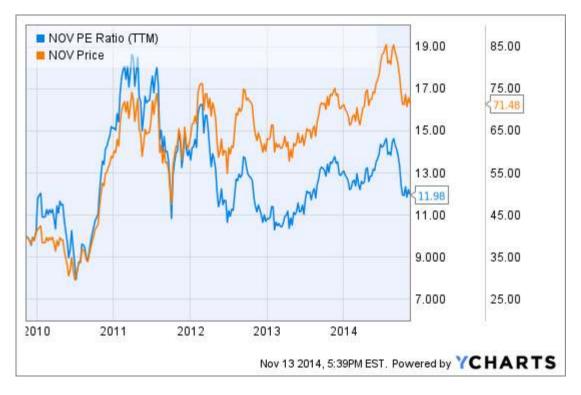
For an unequivocal margin of safety, you'll need to put on your contrarian energy hat: Schlumberger (SLB) currently trades at a 35% discount to Morningstar's fair value estimate. This chart pretty much explains things, as Schlumberger's fate has been tied to the fall in oil prices.



SLB data by YCharts

But take a look at the small uptick of late in Schlumberger stock. That's not because oil has stabilized. More likely, the value tribe has taken notice and thinks the pounding is overdone for the global leader in oil services.

It's a similar story for National Oilwell Varco (NOV), a wide moat stock selling at a 20% discount to fair value. Given the drop in oil prices there's obviously concern if production will be scaled back, which would impact the leading supplier of oil drilling equipment. But that's pushed the stock to a valuation -- a sub 12 PE raio -- that has tended to signal a price turn in the offing over the past few years.



NOV PE Ratio (TTM) data by YCharts

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