Blue-chip in difficult times?

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The term is used for financially stable companies with a good reputation, and who are well established in their industry. A blue-chip company is expected to be non-cyclical and should deliver attractive profits in good as well as in bad times. Typically, the company is among the top three in its industry with a well-respected brand. The term, as such, originates from poker.

It is complex to define what is a blue-chip company. The Dow Jones index may be a guidance since it is supposed to include US blue-chip companies, such as Apple, Coca-Cola, Intel, and Microsoft.

Shares in blue-chip companies are considered to have a lower risk compared to non-blue-chip. They should have solid profitability and regularly pay dividends to their shareholders. Common investors in blue-chip shares are institutional investors managing public money, such as pension funds.

The opposite of blue-chip is the so-called penny stocks, which typically have lower and less stable share price. Penny stock companies will regularly not pay dividends to their shareholders.

Shares in blue-chip companies are, of course, not unaffected by major, adverse events impacting the stock market – for example, during a stock market crash.

Of course, a blue-chip company can suffer from challenges other than a general stock market decline, make losses, and in the worst case, go bankrupt. There are several well-known examples where reputable businesses have experienced severe problems during disruptive market changes. An example is digitalization and its impact on industries such as Kodak and Agfa. The shift in technology opened up for devastating competition from brand new companies.