How to Capitalize on Speculative, High-Flying Growth Stocks as a Value Investor

Description

Each DIY investor has their own strategy when it comes to investing. We're all unique with regards to our risk tolerance, income requirements, and personal tastes.

Value investors are those who are constantly on the hunt for stocks of great businesses that are priced significant discounts to their intrinsic value. Followers of Warren Buffett are value investors. The long-term rewards from value investing can be huge and will allow you to beat the market without the need of paying obscene fees to "professionals" who claim they can do better than you.

Why value investors may miss out on momentum stocks and their astounding returns

Value investing, when done correctly, can help you unlock next-level returns over the long run; however, there's one drawback to the value-oriented approach. It can cause you to miss incredible growth stocks such as **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP), since, to a value investor, the stock is ridiculously expensive. However, it's important to realize that a stock with such a tremendous growth profile will likely never trade at a level where it'd be considered a value stock (unless a violent market crash occurred, of course!).

To say Shopify has rewarded its early shareholders would be a vast understatement. The stock is the biggest YTD winner on the TSX with its ~158% return. Despite there being no real margin of safety, which is what value investors really want, Shopify has continued to climb higher, and the "ridiculous overvaluation" has continued to become even more ridiculously overvalued.

What's a value investor to do?

If you're a value investor like me, then you probably have no idea how to get into such a growth stock without taking on a higher degree of risk. Unfortunately, the principles taught by Warren Buffett would tell you to avoid the stock, since it's expensive and it's not even profitable yet. Clearly, growth stocks like Shopify are an entirely different beast and require a completely different mindset to invest in.

Warren Buffett has missed out on tremendous opportunities in his lifetime, but he's never fretted. He stayed within his circle of competence, and although it caused him to miss out on some winners, it kept him out of trouble, for the most part. Preservation of capital and a margin of safety are incredibly important for value investors, but you'll inevitably miss out on growth giants like Shopify if you follow the advice, but you shouldn't fret either, since you're staying in your personal comfort zone.

Allocate a small section of your portfolio for growth plays you normally wouldn't be comfortable owning

If you're a growth investor, or you're willing to step into the shoes of one, then it may make sense to allocate a separate part of your portfolio for "high-flying growth stocks." Here you can get some skin in the game in stocks that have appeared to run ahead of reality, because, honestly, over the long term, such a stock is probably likely to continue soaring if the opportunity is real.

Shopify is ridiculously expensive and wouldn't make sense to own for a value investor; however, it's still an attractive stock for your growth portfolio, but only if you accumulate your position gradually over time to reduce risk. This way, you can get the best of both worlds without compromising your investment principles.

Bottom line

You can still be a value investor, but in the growth section of your portfolio, you can have a bit of fun looking at high-flying stocks that you normally wouldn't consider.

If you're still hesitant to invest in such high-flying growth plays, then there's nothing wrong with sticking to a 100% value-oriented strategy. You'll capture many opportunities as you miss out on others, but don't despair about the ones you didn't get; instead, focus on your own portfolio moves.

Celebrate your victories and learn from your defeats. Just don't waste your efforts thinking about "missed opportunities." It's unproductive and, worst of all, it's unhealthy.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

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1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

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