



Should You Go With Value Investing or Growth Investing?

Description

Value investors aim to buy companies for less than what they are worth. Growth investors aim to invest in companies that have bright futures.

Typically, value investing delivers more consistent returns, while growth investing has huge price swings — up or down — when the actual growth exceeds or disappoints the expectations.

Some value investors require a discount of at least 30% before investing. However, it'll probably take a recession before they will be able to invest. In the meantime, they'll have capital sitting on the sidelines earning low interest.

Growth investing is generally riskier because investors are essentially paying a more expensive multiple for the company's growth potential. If they're wrong about the company's bright future, there's huge downside risk.

A value investment

I consider **Altagas Ltd.** ([TSX:ALA](#)) as a value investment. At about \$28.70 per share, the company trades at a price-to-operating-cash flow ratio of about 9.1, while it's estimated to have double-digit cash flow growth for the next few years.

The Street consensus from **Thomson Reuters** thinks the stock should be worth \$34.10 per share in 12 months. The target represents a discount of nearly 16% and upside potential of almost 19%. As a result of the low price, Altagas offers a 7.3% yield, which is not readily found.

Stocks are usually cheap for a reason. In Altagas's case, the shares turned south when the company announced it will acquire **WGL Holdings**, which is a big acquisition. Even if Altagas manages to acquire WGL by mid-2018 after gaining regulatory approvals, there's still increased uncertainty about the integration.

If management increases its dividend in the fourth quarter, we could see higher share prices.

A growth investment

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) has been exactly what growth investors expected it to be. On the Toronto Stock Exchange, the stock has appreciated ~150% in the last 12 months.

In the first half of the year, Shopify's revenue was 75% higher than it was in the previous year. Notably, the stock hasn't posted a profit yet. So, buyers today are truly buying it for its perceived bright future.

I was late to the party and only started buying this year. Within two weeks of my purchase, the stock dipped more than 10%. And I responded by adding to my position.

The stock has appreciated about 26% from my average cost; it has been riding on the mega-trend of mobile and e-commerce across multiple sales channels.

I expect the ride with Shopify to continue to be bumpy, but if things go right, the stock will deliver tremendous upside.

Investor takeaway

One thing to keep in mind is that value stocks can grow too. It's just that growth stocks are estimated to grow at a much higher rate.

Should you go with value or growth investing?

The simple answer is, "it depends." Personally, I wouldn't be comfortable investing only in growth stocks.

If you're not sure which type of investing to go with, begin with value investing; value investors tend to have a higher rate of success. Later, you can consider a small percentage of your portfolio — perhaps up to 15% — for growth stocks.

CATEGORY

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