Should You Focus on Growth Investing or Dividend Investing?

Description

Sometimes investors debate whether growth investing or dividend investing is better. I'll give some quick examples of each and discuss a potential resolution.

What does a growth company look like?

The type of growth companies I have in mind are ones that are experiencing high growth and have high multiples to reflect it. **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) is such a stock.

Shopify trades at a stratospheric price-to-operating-cash flow (P/OCF) multiple of ~608, and it still hasn't turned a profit yet. However, in the most recent quarter, it generated revenue growth of 75% and gross profit growth of 83% compared to the same quarter in 2016.

Despite a ~12% dip triggered by a recent short-selling report, the stock is still impressively up ~122% from a year ago. This is the kind of growth or price appreciation that is impossible to be obtained from dividend investing.

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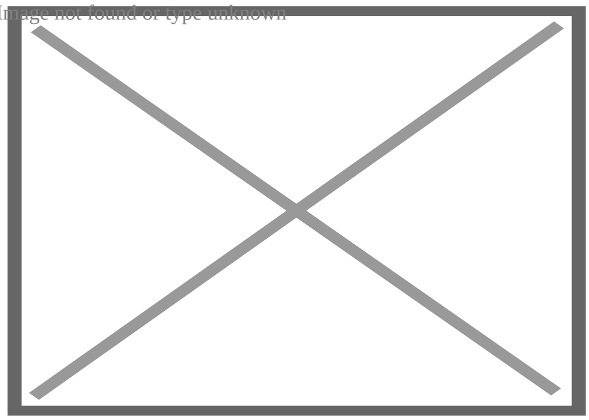

What does a dividend company look like?

A good dividend stock offers dividends that are sustainable for the long term. A better dividend stock will grow its dividend sustainably over time.

Some investors feel that dividend stocks, especially ones that pay decent yields of 3-7%, grow too slowly. However, these stocks should also be more stable than growth stocks like Shopify. They also trade at much more attractive valuations than growth stocks.

I consider **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to be attractive right now. It has +60-year history of paying dividends and 21 years of record dividend growth at a double-digit rate.

The stock has pulled back almost 16% in the last year. At under $50 per share, the North American energy infrastructure leader trades at a P/OCF multiple of 9.5, while management expects the company will grow at a rate in the teens. Its growing available cash flow will allow Enbridge to grow its dividend per share by 10-12% through 2024.

Take a guess as to where the dividend yield is at now. It's at 4.9%! If Enbridge really increases its dividend by 10% per year through 2024, an investment today will have a yield on cost of +9.5% by the end of that period.

Think about this: the long-term average market return is 10% in the U.S. and is even lower in Canada. So, getting a yield on cost of +9.5% in seven years is pretty good. And after that, there will probably be more dividend growth. I believe Enbridge is a better value than even the Big Five banks today.

Investor takeaway

Dividend investing is a lower-risk way to invest than growth investing, even though its returns may be lower. On the plus side, a ride in Enbridge should be much more stable than a ride in Shopify.

Additionally, Enbridge offers a yield of nearly 5% for starters. Every time Enbridge pays a dividend, it's like getting some of your investment back.

However, some investors don't want to miss out on the exceptional growth from stocks like Shopify. But they can get the best of both worlds by buying both Shopify and Enbridge.

Personally, I focus more on Enbridge for its stability and growing dividend. And, indeed, my Enbridge position is four times bigger than my Shopify position. This allowed me to not panic when Shopify had a big dip from the recent short-selling report.

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Date
2025/08/10
Date Created
2017/10/26
Author
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