A Safe Momentum Stock to Ride into the New Year

Description

Momentum investing a controversial investment strategy to some as it breaks many rules of good old-fashioned value investing. While most folks think it's a short-term strategy for traders, I think there's room for momentum stocks for long-term investors who value growth and capital gains. For younger investors who are decades away from retirement, the focus should be on growth and capital appreciation while they're still able to tolerate a higher degree of risk, so momentum stocks are usually a great way to go.

It's a common misconception that many momentum stocks offer little in the way of long-term value. When you exclude momentum stocks that have run above and beyond what's realistic (e.g., cannabis stocks), you'll see that there are still momentum stocks that are attractively valued relative to their long-term growth trajectories.

If you've got the mindset of a value investor, you're probably more comfortable pulling the trigger on a stock that's taken a dip over a stock that keeps surging past all-time highs on a regular basis. It's tough to pay up for a stock, but with such a strategy, you'll likely miss out on some of the largest growth opportunities, as the momentum could possibly continue months or even years after you were wondering whether to buy the stock.

Buy-the-dip is a great strategy when used correctly; however, these dips often don't happen, so in certain circumstances, it's absolutely fine to buy a stock that's riding momentum if you believe in the firm's long-term growth prospects.

Consider **Spin Master Corp.** (TSX:TOY), a stock that's been surging since its IPO a few years ago. In just over two years, its shares have nearly tripled. That's a ridiculous amount of momentum. Although the stock was never considered a value stock based on traditional valuation metrics, the stock still climbed higher because of the company's ability to drive earnings through the roof on a consistent basis.

Unlike many other momentum stocks that have doubled or tripled over a short timespan, Spin Master is not absurdly overvalued. In fact, I think it's actually undervalued with a 21.8 forward price-to-earnings multiple when you consider the innovation and longer-term opportunity to drive earnings much higher over the next few years.

Bottom line

A lot of momentum stocks are fuelled by hype and have little to no trailing earnings to fall back on. That's not the case with Spin Master, however. This company is driven by fundamentals first and foremost, not hype. That's why I believe it's a safe momentum stock that investors should feel comfortable buying, regardless of how high the stock has surged in the past. A buy-the-dip strategy has been a very profitable endeavour in the past, and will likely continue to be a safe way to achieve next-level returns.

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