Is Growth or Income More Important to You?

Description

Stock investors can get returns from two components: price appreciation and dividends. Two things lead to price appreciation: the growth of a company's profitability and buying a stock when it trades at a discount.

Should you focus more on growth or income for your portfolio?

It depends on your needs now and in the future. If you have more than 10 years to invest, you will probably get more returns by focusing on companies with higher growth.

However, if you're close to retirement or you're a retiree, you should focus on income, as you probably need income soon or immediately.

In either case, investors should aim to buy stocks at a discount.

Where to get growth

For high growth, investors can consider small-cap or mid-cap companies. Some investors may see small companies as too risky to invest in. These investors can consider exchange-traded funds, such as **SPDR S&P MidCap 400 ETF** for this area of exposure.

Of course, the best time to buy is when the market tanks, but we're not quite there yet. The SPDR S&P MidCap 400 ETF has only dipped about 6.5%. However, if you don't think the market will crash anytime soon, you can consider nibbling on the dip and build a position by scaling in to your position.

You can also consider large-cap growth stocks, such as **Alimentation Couche-Tard Inc.** (TSX:ATD.B). Couche-Tard is a convenience operator and consolidator. Currently, it has more than 10,000 stores in North America, more than 2,750 stores in Europe, and about 1,800 licensed stores internationally.

The stock has returned significant value to shareholders in the long run. A $10,000 investment bought in Couche-Tard a mere five years ago has delivered an annualized return of more than 31%! In other words, the $10,000 transformed to $38,000 in price appreciation and dividends. The stock appreciated 280% and delivered 8% of dividends from the original investment.

At ~$62.40 per share, Couche-Tard trades at a price-to-earnings multiple of ~18.2, which is attractive for a company that's expected to grow its earnings per share by at least 17% for the next three to five years.

Where to get income

Thanks to the latest dip, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) now offers a juicy yield of 6.1% at a better valuation. The stock can appreciate 25% if it reverts to the mean. In the meantime, management's latest guidance for dividend growth is 10% per year for the next few years.

Investor takeaway

Depending on your needs and where you're at in your investment journey, you might want to focus more on growth or income. A strategy that never grows old is buying stocks when they're discounted. Currently, Couche-Tard is a good value for growth and future income, while Enbridge is a good value for income and growth.

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1. Dividend Stocks
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Date
2025/08/06
Date Created
2018/02/07
Author
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