1 Trick Every Successful Growth Investor Uses

Description

They say to buy low and sell high, but successful growth investors know a different rule: buy low and buy higher. That's because when a growth stock starts to execute, it can go on a run that last for years, even decades. That could mean 1,000% returns for patient shareholders with a long-term approach.

Why is it helpful to remember to buy low and buy higher? If you successfully identify a promising growth stock and get in at an attractive valuation, it likely won't be long before the price starts to rise.

If the story is tracking as expected, one of the best things you can do is to *buy more*, even if that means paying a higher price than your original purchase.

One of the hardest things to do as an investor is to uncover a growth stock that can increase the value of your portfolio by ten-fold. If you have growing confidence in one of your growth stocks, don't let the opportunity go to waste.

Also don't be shy about allocating a sizeable portion of your portfolio to your fav0urite ideas. As Warren Buffett once quipped, "Put all of your eggs in one basket and *watch* that basket."

This trick—buy low and buy higher—is tough to do in practice. It can be hard to add to your position after the stock has run 100% or more. There's often an urge to "wait for the dip." But if the stock is as good as you believe it is, the dip may never come.

You may feel pleased as your original investment rises in value, but you likely left big gains on the table by neglecting to double down.

How do you know when to double down, even at significantly higher prices? Two successful growth stocks can give us some answers.

Is the story tracking?

In hindsight, **Cargojet Inc** (TSX:CJT) is a classic millionaire-maker stock. But during the run, it wasn't always easy to add to your position. In 2011, Cargojet was pitched as the ultimate consolidation play.

Multi-national shipping companies like **United Parcel Service, Inc.** and **FedEx Corporation** were ill-equipped to handle Canada's unique regulatory environment and fragmented population density. Management argued that Cargojet could dominate the overnight shipping market in under a decade.

From 2011 to 2014, shares nearly tripled. The story was tracking. Management was making good on its projections. Many investors, no doubt, booked their gains. The smart move, however, was to double down given that the company had a long runway left of potential market share gains.

Ultimately, that's exactly what happened. Today, Cargojet has a stranglehold on overnight shipping routes in Canada. From 2014 to 2019, the stock quadrupled. If you sold or refused to add to your position after the first tripling, you gave up some huge gains.

Eat the premium

Another hurdle that stops investors from adding to their position is that a stock remains "expensive." Expensive, of course, simply means that the valuation multiples are elevated.

Notably, it *doesn't* mean that the stock is *too* expensive. Think of any high-quality product that you buy and love. Sure, they may be expensive, but they're worth it.

The best growth stocks are the same way. Just look at **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) and **Constellation Software Inc** (TSX:CSU). Both had nosebleed valuation multiples for years.

Again and again, the stock continued to climb. That's not because of irrational optimism, but because the fundamentals continually justified the lofty valuation.

There's no doubt that both Shopify and Constellation shares are wildly expensive today. But that's been true for nearly their entire operating history.

Under many scenarios, each company could double or triple in size again without much effort. If that becomes reality, the current "expensive" valuations will end up looking like bargains.

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TICKERS GLOBAL

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2. TSX:CJT (Cargojet Inc.)
3. TSX:CSU (Constellation Software Inc.)
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Author
rvanzo