



## 3 Lessons Every Growth Investor Should Learn

### Description

Growth investing has been a winning strategy for nearly a decade. Led by the likes of **Netflix** and **Facebook**, high-growth companies have been fueling stock market averages forever higher. Valuations are exploding. **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), for example, trades at more than 20 times forward sales.

Just be careful — major risks remain. If you want to succeed in growth investing, pay attention to the tips below.

### Gravity is powerful

What goes up often comes down. It's nothing against growth companies; it's just that pricey stocks are often hit the hardest during a market downturn. **Canada Goose Holdings** ([TSX:GOOS](#))([NYSE:GOOS](#)) is the perfect case study.

Following its IPO in 2017, shares consistently traded at 50 times trailing earnings. In some cases, the valuation approached 100 times trailing earnings. Was the valuation worth it? On a long-term basis, probably. Canada Goose had been compounding revenue growth by 30% or more annually. But that didn't stop the stock from plunging 30% in a single day after a slight revision to its long-term forecast.

Moving forward, management only expects revenues and EPS to grow between 20% and 30% per year. That's still an incredible long-term growth rate but a bit below what the market was expecting. Here lies the lesson: the more expensive a stock is, the less room it has for error. Expectations are simply too high. If you're paying a premium, know that the valuation can get compressed quickly. If you're still a fan of the company, be prepared to [double down](#).

### Platforms are powerful

You know what else is powerful? Platforming a technology. Shopify is perhaps the best example in years of how to platform successfully.

What do I mean by platforming a technology? It means the company has built the infrastructure for a bunch of additional products and services to be built upon. It's created a platform, if you will. That's a powerful position because it allows you to control an entire ecosystem rather than a single piece of tech.

How has Shopify platformed its e-commerce suite? Anybody can use Shopify to spin up a beautiful e-commerce website in minutes. Critical tools like payment processing are *already included*, meaning the store is fully functional from day one. In addition, Shopify customers can add various extensions that increase functionality ever further. If the customer wants to switch to another e-commerce provider, they'll lose all of the value-adding components that are built on top of Shopify's platform.

Increased switching costs are a key way to keep users and boost revenues per customer. It's a big reason why Shopify stock is up more than 1,000% in just four years. If you want to find growth stocks with massive upside, find a platforming company.

## Growth is value

At the end of the day, there's only one time-tested investment strategy: value investing. Too often, growth investing is explained as the *opposite* of value investing. This couldn't be further from the truth. This is an incredibly important distinction, one that could have a major effect on your portfolio's ultimate value.

It doesn't matter if you call it growth investing or value investing, the basic strategy is to buy a stock for less than it's worth. Whether you're buying it for less than it's worth *today* or less than it will be worth *tomorrow*, you're still applying proven value investing techniques mastered by the likes of Benjamin Graham and Warren Buffett.

If you're stuck on growth investing, just remember one rule: never fall for the "greater fools" approach — that is, buying a stock on the expectation that someone else will come in after you and buy it at a higher price. Over the long run, all stocks rise on fundamentals, not momentum. Every stock market bubble in history should give you caution about the "greater fools" strategy.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:GOOS (Canada Goose)
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