Dividends vs. Growth: Which Is the Better Option for Investors?

Description

One of the biggest considerations an investor will make is whether to invest in a stock that generates a good dividend or one that's focused on growth. With the exception of a very small dividend being offered, growth stocks normally won't offer any sort of yield, as they'll require the cash to help fund future growth and expansion.

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That makes the decision of deciding on whether to invest in growth stocks or dividend stocks an important one.

Potential returns make growth stocks much more valuable

A good example of a strong growth stock is **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS), which has achieved significant sales growth since listing on the TSX. Its quality products are made locally and have won over both investors and consumers alike. And with the company selling online as well, it has made it easier to sell its winter clothing year-round.

Last year, the stock climbed 50%. This year, however, things have been a lot more volatile, and the stock has fallen in value, down around 10% heading into trading on Wednesday. While there's no doubt that double-digit returns will eclipse the dividends that can be earned from a bank stock like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), there's also more risk of a sell-off happening.

At a price-to-earnings ratio of more than 40, Canada Goose is an expensive stock to own, and that makes it easy to justify selling it when economic conditions are not ideal. Growth stocks are all about increasing their sales and profits as much as possible, and unfortunately, the first hint of a struggle could trigger a lot of selling, which is what happened earlier this year when Canada Goose's quarterly results were not as strong as investors were hoping for.

If you plan to invest your money for many years, then growth stocks could be appealing since you have the flexibility to wait out any corrections that may take place. However, if you're primarily focused on stability or recurring income, then that's where dividend stocks may be more suitable for your needs.

When dividend stocks reign supreme

CIBC's stock is yielding more than 5.2% per year, and that means that even with a modest return, it could help grow your portfolio by more than 10%. The benefit of a stock like CIBC is that it isn't trading at obscene multiples, and that means there's less room for a possible correction.

The problem for CIBC this year is that with a negative outlook for the economy, it and other bank stocks have struggled to rally and make up for disappointing performances in 2018. But with a beta of around 1.2, CIBC will closely follow the direction of the markets.

The good news is that with the dividend income, investors of CIBC are making out a bit better than the stock's returns would indicate. And unlike with growth stocks, there's more of a likelihood that a stock like CIBC will recover from a fall in price simply because it's more fairly priced and trading at reasonable multiples.

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Bottom line

Which path you choose, growth or dividends, ultimately comes down to your investing profile and how much risk you're willing to tolerate. Although there's no simple answer to which strategy is best, in good economic times, growth stocks can produce stronger returns, while under more adverse conditions, dividend stocks can be very helpful in improving your portfolio's overall performance.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:GOOS (Canada Goose)
3. TSX:CM (Canadian Imperial Bank of Commerce)
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