In July, Don’t Miss Out on These Growth and Value Winners

Description

We recently heard the news that **Shopify** became the most valuable company in Canada. The company displaced **Royal Bank of Canada**. Heads were turned.

When one really thinks about this dynamic, it becomes clear that the age-old value investing vs. growth investing strategies discussion is alive and well. Shopify’s growth trajectory has only accelerated through the COVID-19 pandemic. Therefore, the company’s success has shifted the way many investors think about what constitutes safety today.

Marketplace FOMO

On the one hand, the fear of missing out (FOMO) on the next potential **Amazon.com** may be a huge perceived risk for long-term investors. It is true that missing out on a big winner in the stock market can be perceived as worse than losing money on a dog. Many value stocks find themselves in the doghouse with investors today.

This recent decade-long bull market has shown that sticking with value stocks has typically not turned out well. These stocks tend to have lower valuation multiples. Additionally, these companies typically have lower growth expectations. The same growth stocks have continued to outperform during the recent downturn in March. This was perhaps even more surprising.

With the past as our backdrop, predicting whether this trend will continue indefinitely seems to be the question many investors want answered. My personal take is that a reversion toward conservative investing policies will collectively grip the stock market once we begin to see earnings deterioration play out.

I expect third- and fourth-quarter earnings to be absolutely dismal. I do not expect monetary or (most) fiscal stimulus measures will have any tangible effect on the real economy. Thus, this dislocation between the real economy and stock prices may continue for some time longer. However, I see valuations today as unsustainable long term.

Value investing

The concept of value investing is a simple one. It is rooted in long-term conservative investing philosophy. The idea that stocks will eventually revert toward a longer-term mean is rudimentary but opposite momentum/growth investing mantras.

Some companies can indeed find a way to grow at a ridiculous pace and deserve a unicorn title. I have no doubt Amazon and Shopify fall into this category. That said, most companies that see valuation multiple expansion happen at a very rapid pace in a short amount of time tend to revert toward the market mean. This also works in reverse.

Various companies trading near or below their historical valuation multiples are being ignored today by many investors because of a perceived lack of growth relative to other stocks. This is where I see true fundamental opportunity for long-term investors today. Tonnes of value exists in the stock market today. Canada has its fair share of companies that have been beaten up unfairly by investors, despite excellent cash flow generation and decent balance sheets.

Bottom line

I would encourage every investor today to run a stock screener on the TSX. Investors should search for companies trading below book value, or even those trading well below their historical long-term multiples. The finds are incredible. Opportunity exists in every market. The fun and exciting part is uncovering this hidden value.

Stay Foolish, my friends.

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