Are Value or Growth Shares Best to Buy for 2021?

Description

In many cases, companies fall into one of two categories: value shares or growth shares. The former is often made up of stocks priced at low levels relative to their peers or historic averages. Their appeal often centres on their potential to deliver share price recoveries as operating conditions improve.

Meanwhile, growth stocks are those businesses that are expected to deliver an impressive rise in earnings over the long run. They can trade at high prices because of investor optimism.

Investors often focus on buying one type of stock or the other. However, given the uncertain economic outlook, which type of stock will outperform the other over the long run?

Growth shares or value shares?

While it is possible to separate growth shares from value shares based on factors such as their price and forecasts, combining the two could prove to be a profitable move. In other words, where growth stocks are priced at cheap levels they could be a very appealing investment opportunity. Similarly, where value shares have improving earnings prospects, they too could deliver high capital appreciation over the long run.

Of course, growth stocks are rarely priced at low levels. However, many of them appear to offer wide margins of safety at the present time. This may be because of short-term disruption that masks their long-term growth potential. Or, it could be because they are experiencing industry changes that are causing investors to demand wide discounts to their intrinsic values.

Similarly, many value shares seem to be cheap based on their long-term prospects. In some cases, investors may be underestimating their capacity to recover from present difficulties. Where value stocks have sound finances and the right strategies to adapt to changing operating conditions, they could prove to be very attractive investments.

A starting point when investing money

As such, instead of automatically categorising a company as a growth share or a value share, it could be prudent to approach it with an open mind. For example, this may entail an analysis of its financial position, competitive advantage, strategy and historic performance to determine how much it may be worth given current levels of risk. Should it be trading at a discount to its intrinsic value, there could be a buying opportunity on offer.

This strategy may enable an investor to find the best stocks through which to earn a return that beats the stock market over the long run. Some may be growth shares when they are trading at cheap prices, while some may be value shares when they have more attractive financial prospects than the market is currently anticipating. Through owning a diverse mix of businesses in a variety of sectors, it is possible to build a resilient portfolio with relatively low risks that can provide high returns in the long run.

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