



3 Tricks to Choose Top Growth Stocks

Description

As a growth investor, I've created a substantial list of requirements that a company needs to meet for me to consider it as an investment. I've found that by being disciplined in your investment decisions, your possibility of success will increase.

Strategies such as this becomes even more important when investing in growth stocks, because investors cannot always rely on financial metrics to make investment decisions. In this article, I will go over three of those requirements. I will be focusing on **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), **Nuvei** ([TSX:NVEI](#)), and **Lightspeed** ([TSX:LSPD](#))([NYSE:LSPD](#)).

The company needs to lead an important and emerging industry

The first requirement companies need to meet is that it leads an important and emerging industry. In the case of Shopify, it is clearly a global facilitator of the shift towards e-commerce. The company provides businesses with a platform and all the tools necessary to operate online stores. What's most impressive about Shopify is that it is able to appeal to everyone from the first-time entrepreneur to large cap companies like **Netflix**.

Nuvei is helping increase the [penetration of digital payments](#). Using its omnichannel payments platform, businesses are able to accept mobile and online transactions in addition to in-store and unattended payment methods. This helps companies streamline and consolidate their entire payments system. Finally, Lightspeed is helping small- and medium-sized businesses modernize their POS systems, which is greatly needed in many industries.

Not focused on large one-time payments

The next requirement that I place on potential investments is that it possesses a sticky platform which is powered by recurring payments. The first part of this requirement is necessary because it ensures that its customers won't want to switch service providers once they're integrated into the system. For example, Shopify's customer count has continually increased since its inception. Today, more than 1.1

million merchants around the world use its platform.

For an excellent example of the second part of this requirement, look at Nuvei. Being a payment processor, the company charges businesses a certain percentage on every transaction processed. This is a prime example of recurring payments. Nuvei is guaranteed income as long as its customers are in business. Finally, Lightspeed's [latest earnings presentation](#) shows that it has both a sticky platform and strong recurring payments. The company reported that its total customer locations and revenue increased by 56% and 84% year over year, respectively.

Have a founder CEO with large ownership stake

Finally, I want to see that the company's founder is still involved with the company and owns many shares. The first part of this requirement indicates that the founder is passionate about the mission of his or her company. For example, Tobi Lütke created Shopify after he realized that there weren't any good platform providers when he wanted to create an online store to sell snowboards. Philip Fayer (Nuvei) and Dax Dasilva (Lightspeed) wanted to modernize the payments and POS systems for small- and medium-sized businesses, respectively.

The second part of this requirement indicates that the company's CEO strongly believes in the success of his or her company. It also tells investors that the CEO accepts being financially rewarded according to the company's success. Generally, I look for at least a 5% ownership by a company's CEO. Lütke of Shopify hold a 6% ownership stake. This compares to a 20% and nearly 10% ownership stake by Fayer and Dax DaSilva, respectively.

Foolish takeaway

When looking to invest in growth stocks, investors should create a checklist that they follow with discipline. The first things I look at is whether a company is a leader in an important industry. Next, it should have a sticky platform. Finally, potential companies should have involved founder. Shopify, Nuvei, and Lightspeed are three companies that satisfy all three requirements. Shareholders of those companies would be able to agree that they've been quite successful thus far.

CATEGORY

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2. Tech Stocks

TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:LSPD (Lightspeed Commerce)
4. TSX:NVEI (Nuvei Corporation)
5. TSX:SHOP (Shopify Inc.)

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