



## An Intermediate Guide to Types of Growth Stocks

### Description

How do you decide on which stock to invest in? Do you read the top stocks to buy and invest in them? Or do you add those shares to the watchlist and jump into the rally, as you feel the dip is not coming? Or do you read what the company does and how its financials are and, after thorough [research](#), buy the shares?

### A beginner's guide to stock picking

The above three steps could make you anxious, as the stock might not perform as per your expectations. This is because you are missing an important aspect: setting expectations.

Every stock has its features, and if you set expectations accordingly, you won't be disappointed. I have listed three types of shares that give returns through capital appreciation but at different levels.

### Growth stocks

These are the stocks that give you returns through capital appreciation. You will generally see their stock price graph in a long-term uptrend. There could be some short-term dips, as no business comes without challenges, but they tend to return to growth.

There is a phase of accelerated growth, normal growth, and then flat growth. These are mostly tech companies or small companies in their early stage of growth or a turnaround. They enjoy double-digit revenue/EPS growth. Their shares have a high valuation, as investors price in the future growth potential.

**Shopify**, **Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)), and **Nuvei** are growth stocks, as they meet all the conditions. They saw a phase of accelerated growth during the pandemic. Their growth has now normalized. As their sizes increase, growth will slow, unless there is a turnaround or restructuring.

## How to make money from growth shares

First, understand the nature of business and see if the company has the potential to grow further. Then buy the stock when it dips. Lightspeed stock fell in May, as the first quarter is seasonally weak, creating a buying opportunity. The stock has surged 85% from its May dip.

Never buy a growth stock near its 52-week high, as that will limit your upside. Lightspeed is currently trading near its high, making it a stock worth holding or booking some profit rather than buying. If you buy the stock at its current price, you might be disappointed in March or April 2022 when it [corrects](#).

## Momentum stocks

Now, just like growth shares, there are some momentum shares. These momentum shares also give returns through capital appreciation. But beware, as their rally is momentary and driven by some event. The stock price does not move on fundamentals but on investor sentiment. Most traders invest in these shares to make short-term gains.

For instance, **Air Canada** ([TSX:AC](#)) stock surged 85% from November 1 to December 3, 2020, on vaccination news. Since then, the stock's momentum has been in tandem with the pandemic waves and vaccination. The share rode three momentum waves. Then its growth plateau in July 2021 after the \$5.9 billion [bailout](#). The government has equity warrants that give it a 10% stake in AC.

## How to make money from momentum shares

Like growth shares, the trick is to buy the dip. But momentum stocks have a short rally. So, it is better to book profit when the stock hits the price target you expected. To identify such momentum stocks, look at the trading volumes if they are above average. As the trading volume slows, the momentum slows, and the stock may not give you significant growth. When the trading volume eases, it is better to cash out your money and invest in growth stocks.

## Speculative stocks

A level above momentum stocks in terms of risk and volatility are speculative stocks. They neither move on fundamentals nor on any event. It is difficult to justify their growth and dip. Crypto mining stock is a perfect example of speculative stocks, as they move in tandem with Bitcoin's price, which is difficult to predict. A rumour or a tweet can create a 30% dip or rally.

Now that you've learned about the types of growth stocks, set your expectations accordingly.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. TSX:AC (Air Canada)
3. TSX:LSPD (Lightspeed Commerce)

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