



Trying to Beat the Market? This Can Help You Choose the Best Growth Stocks

Description

Investing in growth stocks can be very rewarding. Generally, those stocks have the potential to outperform the broader market. However, it can be difficult to decide [which companies are best](#) to hold in your portfolio. That's why creating a checklist of certain traits can be beneficial. By systematically eliminating certain companies, you can narrow your search with fewer biases. By following the same search formula over and over, you can eventually build a portfolio based on qualities you value. Here's how I would choose the best growth stocks.

It must be a leader in an important, emerging industry

The first thing I look for in a top growth stock is whether it leads an important *and* emerging industry. For example, the healthcare industry can be seen as important. Within that space, telehealth appears to be one of the emerging areas. In fact, investors have been very interested in companies like **Teladoc** and **WELL Health Technologies** over the past couple years.

While there has certainly been an uptick in telehealth adoption, the industry still doesn't have quite the same traction as other industries. That's why I've decided to stay away from it for the time being. Choosing the right industry at the wrong time (e.g., being too early) can still be the wrong decision.

My favourite industry to invest in at the moment is e-commerce. It's true that online retail has been steadily growing over the past decade. However, the pandemic has greatly accelerated its penetration. Even after in-store shopping returned, online retailers like **Shopify** have seen massive success.

Look for a company with proven growth

Investors should also look for companies with a proven history of growth. There are different ways you can look at this. One way would be growth in revenue. I tend to look at a company's last three to five years of revenue. If it has managed to increase its revenue each year over that period, then I'll move it along for further consideration.

An example of a company that has [managed to do this](#) is **Lightspeed**. In 2018, the POS company reported US\$57 million in revenue. Its revenue has increased each year and now, over the last 12 months, its revenue has surpassed US\$389 million. Companies in other sectors can also achieve this feat. Take **goeas** for example. In 2017, it reported \$405 million in revenue. Over the past 12 months, its revenue has skyrocketed to \$766 million. Steady growth year over year will compound; so should that company's stock.

A company's management team matters

Finally, a company's management team is very important to consider. I aim to hold a high proportion of companies in my portfolio that are founder led. It's been shown that founder-led companies tend to outperform companies that are led by non-founders.

Investors should also consider whether a company is led by a CEO with a proven track record. In the States, **Zillow** is a heavily favoured stock by growth investors, and with good reason. Its CEO Rich Barton co-founded the company in 2005. Barton has also held important positions outside of his Zillow career. He founded **Expedia** while working at **Microsoft** and led the company to its IPO. He also co-founded Glassdoor, a popular website where employees can anonymously review companies.

Foolish takeaway

Following a structured checklist can help you choose the best growth stocks for your portfolio. I always look for companies that lead important and emerging industries. In addition, I want companies to show strong revenue growth year after year. Finally, I want to hold companies that have a strong leadership team. Choosing the right stocks doesn't have to be hard. Create a simple checklist like this, and you could see your success rate skyrocket.

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Date

2025/07/03

Date Created

2021/11/17

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