



3 Qualities to Look for in Growth Stocks

Description

[Growth stocks](#) have the potential to make investors much, much richer. Just look at what companies like **Apple**, **Tesla**, and **Microsoft** have done for investors in the United States over their respective histories. In Canada, we have a handful of exciting growth stocks as well. Many of these companies are still very early on in their respective growth stories. This means that investors could see tons of growth moving forward. However, it could be difficult to spot the best growth stocks. What qualities should investors look for?

Is it a leader in its industry?

The first quality that investors should look for is whether a company is a leader in an important and emerging industry. This is something I always ask myself when looking at a new company. It's also a way of filtering companies that I borrowed from Motley Fool co-founder David Gardner's traits to look for in [a rule breaker](#).

This is important to consider for two reasons. First, if it isn't a leader because another company dominates its industry, then the company could have a hard time gaining market share. As a result, investors may not be able to experience a lot of growth. Second, if the industry it leads isn't experiencing rapid growth, then the company's growth potential could be much smaller than a company that dominates the e-commerce industry, for example.

Does it have a strong brand name?

Not everyone may agree with this one, but I think it's very important. Consumers tend to become attracted to companies that they recognize. For example, Apple and Tesla don't need to spend a lot of money on marketing because their products are already highly sought-after. This allows a company to spend more capital on R&D and acquisitions, which could help the company push further ahead of its competition.

In Canada, there are many examples of companies with strong brand names. The first that comes to

mind is **Shopify**. If you look at an online store of a small- to medium-sized business, there's a very good chance its store is powered by Shopify. In fact, some large enterprises like **Netflix** have made headlines for using Shopify's platform. If a company has a strong brand name, consumers will continue to flow to its products, giving the company sustained revenue over time.

Do its founders hold a large ownership stake?

This final quality actually contains two parts. First, is the company led by its founder? This is important because it's been shown that founder-led companies are able to outperform companies led by non-founders. For example, companies like **Intel**, Microsoft, **Alphabet** (Google), and **Amazon** were founder-led for a very long time. In Canada, companies like **Constellation Software**, Shopify, and **Lightspeed** are founder-led as well.

The second part of this quality is whether the founders continue to hold a large ownership stake in the company. This tells investors that the founders of a company are willing to be rewarded according to the company's performance. It aligns their interests with the interests of the shareholders.

Generally, I look for companies with founder-CEOs with at least a 5% ownership stake. Many of the top growth stocks today will satisfy this requirement, and Shopify is a great example once again.

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