Cyclical vs. Linear Growth: What Should Be Your Focus in 2022?

Description

When it comes to capital appreciation, linear growth is easily the most sought after. It's easy enough to understand and plan for. The predictability allows you to identify whether the stock would fit well with your short-term and long-term investment goals.

However, not all linear growth stocks are equal. When the trajectory is predictable, the most important variables that remain include the pace of growth. And even though predicting when the growth rate would accelerate or de-accelerate can be a bit difficult, it's not nearly as challenging as accounting for a cyclical growth stock.

It's important to understand that when it comes to cyclical growth stocks, the "cycles" are most uneven. Sometimes, a stock might rise too much and fall too little, and other times, the stock might not grow fast enough or high enough to counter the dip before. Understanding the triggers and having the patience of waiting around for the positive cycles to come, and making the holding profitable is crucial when you are planning to invest in cyclical stocks.

A cyclical growth stock

While it's not as "cyclical" as other gold stocks, **Kirkland Lake Gold** (TSX:KL)(NYSE:KL) has gone through the motions relatively recently. The stock dropped quite aggressively during the 2020 crash (over 50% from its 2019 peak), but it also recovered quite rapidly as well and was already past the 2019 peak in July 2020.

However, this recovery was not unique. Many other companies, especially from the tech sector, grew almost just as rapidly, and some rose even more than Kirkland's 129% from the dip to the peak. What's different, however, is how the stock behaved after reaching its peak.

It normalized by dipping 42% by the first quarter of 2021, but despite significant uncertainty in the market (a common trigger for gold stocks), the stock grew almost 36% by Oct. 2021. And even though the general trend has remained upwards in the last five years, the stock did offer some cyclical motion of smaller dips and decent growth spurts.

The main reason to buy a cyclical stock like Kirkland (ideally at the dip) is to achieve more growth in a relatively short time than what a consistent, linearly growing company might offer.

A linear growth stock

If you discard the market crash dip and recovery, **Metro** (TSX:MRU) has offered about 69% growth in the last five years. That's less than what Kirkland offered between Sept. 2018 and March 2019 and just 10% lower than the gold stock's growth between March 2019 (dip) and Aug. 2019 (peak). But with Metro, the charm is the buy-and-forget approach.

You can buy multiple long-term linear growth stocks (regardless of the pace) and keep holding them for decades, only selling when the company starts a permanent decline. This would allow you to reach your long-term growth goals and possibly create your nest egg without you taking an active part in managing your investment.

Foolish takeaway

The linear growth stocks, especially the ones that manage to maintain the upward motion for decades, can be considered as being a permanent bull market phase. For cyclical growth, however, you have to look for specific triggers and market dynamics. So, the choice is not simply about what kind of growth the two can offer, but about how active a role you would have to play in your investment.

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