Growth Stocks: My Love and Hate Relationship With Them

Description

If you don't know by now, some pundits have been saying for weeks that there has been a rotation out of growth stocks and into value stocks, as interest rates are expected to rise. While I remember some pundits saying last year that growth stocks have outperformed value stocks for 10 years, which was why investors should have growth stocks in their portfolios.

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I know how thrilling it can be to buy growth stocks, and they turn out to work beautifully in your favour by appreciating quickly. Every time that happens, it's not that I'm smart, but just that the market was on my side at the time.

I still hold a number of growth stocks. And obviously, that has hurt my portfolio recently. Below, I'll share some of my experiences with growth stocks and my love and hate relationship with them.

This little tech stock is a Canadian Dividend Aristocrat

In hindsight, anyone can tell you that last year was a great time to take profit in growth stocks. Personally, I always keep an eye on my holdings, especially the ones that aren't core dividend holdings.

One little tech stock that was interestingly also a Canadian Dividend Aristocrat caught my attention. Thinking that it was attractively priced, I bought shares in **Tecsys** (TSX:TCS) in April and May 2021 after it based and seemed to experience support from its 50-day simple moving average. Within five months, I booked total returns of approximately 31% in the tech stock.

My buy rationale was that it was fundamentally sound and had a track record of increasing its dividend. This was when using technical analysis as an assisting tool makes sense. My rationale to sell was that it was getting close to its fair price at the time and that it was getting exhausted technically.

The tech stock is a good buy for long-term growth now that it has pulled back. The problem for me is that I started buying when it retreated to similar levels that I last bought. And my position is now in the red by about 18%. But now I'm being short-sighted again, as it's probably a good time to average down if I have excess cash.

One analyst named the growth stock as one of his top picks in December 2021 on *BNN* when the stock was 31% higher:

> “One of the top 30 stocks on the **TSX** for the past three years. They develop and maintain supply chain management software, so they are right in the sweet spot now. Main clients health care providers in the US and companies with complex distribution. They just reported record results and backlog. This will be a $100 stock in the future. Yield 0.6%.”
> *Stephen Takacsy, the Chief Investment Officer and Portfolio Manager at Lester Asset Management*

Taking profits at the wrong time

Other times, I have taken profit too soon in growth stocks. For example, I have sold a stock after it appreciated meaningfully by 20-30% only to see that stock triple from my position.

Another time, I built a meaningful position in a growth stock and saw it quadruple but only ended up with a tiny profit after it came crashing down. It now trades at about 15% below my selling level. I have since learned that some investors utilize the strategy of getting their money back after a holding has doubled and let the house money run. In the case of a quadruple, it would make good sense to even take back half of the position at a high.

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At the end of the day, we really don’t know if growth stocks are going to go up or down. Their trajectory depends on macro factors and if the businesses can sustain a high growth rate. Very few are like **Amazon** that can grow for decades at a high rate. Even so, AMZN stock has still fallen hard at times during the Internet Bubble and other market crashes.

Investors should tread carefully, especially with higher-risk, high-growth stocks. Pick your holdings prudently and even throw in some quality value and dividend stocks for diversification.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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2025/09/11
Date Created
2022/02/26
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