



## New to Investing? Here's How to Pick Growth Stocks

### Description

[Growth stocks](#) can be a great tool that investors can use to help achieve financial independence. However, it can be difficult to choose the right stocks for *your* portfolio. Unlike dividend stocks, growth stocks tend to come with a lot more uncertainty. These companies are typically less established and operate in highly competitive spaces. In this article, I'll discuss three things to look for when looking at growth stocks to add to your portfolio.

### Look for companies that have strong tailwinds

If there's one thing that a growth stock needs to achieve success, it's momentum. There needs to be a lot of interest in the products and services that the company provides. Without that, it'll be a very uphill battle. Take **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) as an example. It operates in the e-commerce industry. It's estimated that the industry could grow at a CAGR of nearly 15% through to 2027. This growth should come from the industry's continued penetration into new regions and a steady increase in adoption in developed areas.

Shopify has already established itself as a leader within the e-commerce industry. Together with **Amazon**, the two companies accounted for more than 50% of all e-commerce spending in the United States in 2021. Shopify's platform is unique in that it can cater to everyone from the first-time entrepreneur to large-cap enterprises. As the e-commerce industry continues to grow, I expect Shopify to continue growing alongside it.

### Filter out companies that are unable to grow steadily

Once you've identified a company with strong tailwinds behind it, ensure that it has also exhibited steady growth through the years. Of course, this can be difficult to check if the growth stock you're considering is a recent IPO. However, for most growth stocks, you should have access to their financial records over the past years.

[Looking at Shopify](#) once again, we can see that the company's revenue has steadily grown year over

year. In 2017, the company reported US\$673 million in revenue. That figure has grown each year since, and in 2021 Shopify's revenue totaled US\$4.611 billion. This growth in Shopify's revenue is mainly driven by a constantly growing monthly recurring revenue (MRR). In fact, since Q4 2016, Shopify's MRR has never decreased even quarter over quarter. Over the past five years, Shopify's MRR has grown at a CAGR of 41%.

## Look for companies with involved founders

I also make an effort to invest in companies that are led by their founders. It's previously been shown that founder-led companies have the ability to outperform peers led by non-founders. Shopify is led by its founder and CEO, Tobi Lütke. He's listed as Shopify's single largest shareholder, with an ownership stake of 6.26%. That large ownership in the company suggests that the CEO is willing to be awarded according to Shopify's performance. It also aligns Lütke's interests with those of the shareholders.

Generally, I look for companies led by a founder-CEO that hold an ownership stake of at least 5%.

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