# The Value or Growth Approach to Equities: What Kind of Investor Are You?

Investors can have different investing styles. Two of the most popular approaches are quite different from each other: “value” investing and “growth” investing. Various factors contribute to which approach might suit you best: your risk tolerance, the goals and targets set for your portfolio returns, and what’s happening in the markets. However, rarely do investors remain strictly confined to one investment style. Combining value and growth when appropriate is also a strategic option in a well-diversified portfolio built for the long term.

### *Value Investing: Bargain Hunting for Investments*

Value investors look for neglected or unfashionable equities that they believe are being ignored or under priced by the market. They may be companies in the midst of a turnaround, suffering a cyclical downturn, or a business sector of the economy currently out of favour. All can lead to a low market valuation that suggests to an observant investor that there is hidden value in the shares. The challenge is to determine which companies have underlying strength that is not being recognized by the marketplace.

One way value investors identify potentially undervalued stocks is by measuring the price of the shares against the published earnings (P/E), cash flow (P/CF) or book value per share (P/BV). A low P/E, P/CF, or P/BV ratio is often used as a preliminary signal that the shares may be trading at a bargain price. Further financial analysis of the company’s financial statements can help determine the potential value of the security.

Value investors buy under-valued shares and wait until their intrinsic value is recognized by other investors, thus causing the price of the security to rise. When the price reaches a calculated “fair value” or become “fully valued,” the value investor typically sells and takes a profit.

### *Growth Investing: Spotting Winners*

Growth investors are almost the opposite of value investors who tend to see “growth” equities as being over-valued. Growth investing concentrates on investment opportunities that provide steady future earnings growth with less emphasis on current price. These investors like higher trading multiples (P/E, P/CF, and P/BV) because they indicate that the market is placing a premium value on their investment growth potential. A high price-earnings ratio, for instance, shows that investors have considerable faith in the company’s future earning prospects. Similarly, a high price-to-book-value indicates that other shareholders are willing to pay a premium over the basic equity value carried on the balance sheet. Growth investors target industry sectors that are enjoying above-average growth in the economy and look for the best companies in those sectors to invest in.

The challenge is that growth stocks can be subject to short-term market corrections if a majority of investors turn from buyers into sellers. Growth stocks by their nature depend on steady earnings growth and so can be vulnerable during economic downturns when earnings growth slows or when their own business or industry posts lower-than-expected performance figures.

### *What Kind of Investor Are You?*

Value investors are by their nature more comfortable with a buy-and-hold approach to investing. Research before investing and patience afterwards are part of the style for successful value investing. As a result, value investors are careful stock pickers and their risk tolerance tends to be lower. They look for a “margin of safety” in the companies they invest in, a strong dividend record for instance, and anticipate a steady but not spectacular capital appreciation of their investments.

Growth investors often look for momentum in a particular company or industry, or for broad economic indicators that will "raise all ships" in a given industry sector. Over-valued or under-valued share price is less important because investor enthusiasm will play a large role in determining share price, not the equity's intrinsic value. A growth investor will be more likely to closely watch media information and market trends to indicate when to buy or sell an investment. As a result, there's a speculative element that means higher risk tolerance needed for growth investors.

## *The Best of Both Worlds*

The two investment approaches are not mutually exclusive, and in fact a balanced approach to your portfolio management will likely contain elements of both value and growth in determining the diversity and asset allocation priorities of your portfolio. Your Raymond James financial advisor has full access to the research tools and investment experience needed to ensure your investment philosophy, risk tolerance, and long-term financial objectives are incorporated in your portfolio strategy. Investment style is one of the key areas of discussion that you should be clear about with your advisor, not just once at the beginning of your investing relationship, but regularly as your investment objectives change.

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