

WHAT'S BETTER - VALUE OR GROWTH STOCKS?



FORAGER
FUNDS MANAGEMENT

IT'S AN AGE-OLD QUESTION FOR INVESTORS...

The truth is, there's no one-size-fits-all strategy for success. Some of the world's greatest investors focus on growth, others on value. Not only that, but just how suitable growth or value investments are is individual – meaning, it's completely up to you.

But knowledge is power too, so it's helpful to understand some of the key differences between growth and value stocks, how they might contribute to your portfolio and – importantly – why you don't need to choose between them to generate investment returns.

GROWTH: DISRUPTORS, GAME-CHANGERS, OR THE “NEXT BIG THING”

Think: Facebook, Google, Amazon, Snapchat and Tesla.

ANY. THEY CAN BE START-UPS OR MEGA CAPS

Size

3-5 YEARS OR MORE

Time held

Growth stocks are shares in companies found in rapidly evolving sectors, such as communications and information technology. These companies demonstrate an upward trend in revenue and earnings growth at an above-average rate compared to the fast-moving nature of such industries, are likely to experience more volatility. Most companies in the expansionary phase may opt to reinvest their earnings back into the business rather than pay dividends immediately to investors. In fact, they often need to raise additional capital from investors to fund their growth.

Successful investing in growth stocks is usually more complicated than simply finding a business that will grow. They typically trade at much higher valuations, so the trick is finding growth stocks where the growth is still under-appreciated by other investors.

TIP: While investors tend to look to the future when investing in growth stocks (and while past performance is no indicator of future performance), considering performance can still be helpful – for instance, by looking at five-year returns, you may learn about the growth trajectory of a business.

VALUE: BARGAINS, UNLOVED GEMS, OR PORTFOLIO STAPLES

Think: Big four banks, Coles, Seven West Media and AGL.

ANY

Size

3-5 YEARS

Time held

Value stocks are the opposite of growth. These companies tend to operate in industries that are mature, or even in decline. Think of sectors like old media, banking and commodities.

Their revenues and profits often correlate with economic conditions and some of these businesses require a lot of capital to generate their profits. A mine owner, for example, might need to spend significant amounts of money on equipment and staff just to maintain consistent mine output.

Doesn't sound particularly exciting, does it? The trick here is that investors often get far too pessimistic about the outlook for these companies. They tend to trade at much lower prices and

often pay most of their profits out to investors as dividends.

Low prices and high dividends can translate to wonderful returns for investors. These companies are also often targets of takeover offers from other companies, private equity firms or activist investors advocating for change.

TIP: Investors of value stocks are buying more than just dividends. They often spend a lot of time looking at a company's balance sheet, its cash flow and identifying undervalued assets, like unutilised property.

KEEP IN MIND

It's not straightforward to call a stock growth or value. Companies come in all shapes and sizes and, much like people, are sensitive to their environments and have the capacity to transform.

WHY CHOOSE?

You might think that value investors only buy value stocks. But why would an investor want to restrict themselves to just one part of the market?

At **Forager Funds**, we scour the globe for undiscovered opportunities that many other investors haven't heard of. Sometimes that's a small company whose growth prospects are dramatically underappreciated. Sometimes it's an old business trading at an absurdly cheap price.

For us (and many other successful value investors), a company's growth potential is just another variable that needs to be incorporated into a stock's valuation.

WE DON'T DISCRIMINATE

Our specialist knowledge, powerful valuation tools and research methods give us the freedom to invest in businesses of all kinds – growth and value alike.

But the companies we find all share one thing in common: they offer the potential for higher returns and are purchased at prices we feel are substantially less than their underlying value.

Importantly, our robust and resilient portfolios have the necessary liquidity to give us the agile edge for successfully capitalising on market volatility, identifying new opportunities and generating long-term investment returns.

NOT JUST ANY FUND MANAGER

Forager isn't just what the business offers; it's also who we are.

As the majority owners of our funds, we have serious skin in the game. We understand the importance of getting our hands dirty, working to our strengths, and arming ourselves with the expertise necessary for helping investors achieve their goals.

Led by Chief Investment Officer Steve Johnson, our team is often featured in the media where we share market-leading insights and other helpful resources on investing.

We're also highly active on social media – follow us for the latest updates and chat with us directly.

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General advice only

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