Growth Investing

Lousy companies do not become great companies overnight, and great companies do not become lousy companies over night. One of the most reliable ways to forecast sales, earnings, cash flows and other measures of financial performance is simply to look at what a firm has done in the past. This practice is called trend analysis, and it is simple and effective.

Growth investors try to take advantage of this tendency for future financial performance to mimic (to some extent) recent performance. They identify and buy companies that are growing rapidly.

These companies usually do not come cheaply. But growth investors hope that the superior growth of these firms will eventually pull the price aloft. Furthermore, growth investors usually try to enhance their forecasts for growth by looking at metrics other than just trend. Above all, growth investors feel the key to uncovering a bargain is by buying forms with superior growth prospects.

Growth investing, in a sense, is the opposite of value investing; value investors focus on paying a low price, and consider growth a secondary issue. Growth investors and value investor both want to spot bargains. But each puts a different emphasis on different aspects of the same stocks.