

Growth at a Reasonable Price

There are two basic approaches to stock investing. The first, and probably the most popular, is value investing. Value investors try to take advantage of the fact that low-priced stocks tend to outperform over time by favoring stocks with low price multiples.

However, low-priced stocks tend to be junky, speculative and erratic. Furthermore, they can fall out of favor for long stretches of time. Growth investors attempt to identify stocks that are growing rapidly and then hold onto them until their superior growth pulls the stock price upward. In a sense, growth investors are the opposite of value investors.

Growth-at-a-reasonable-price (GARP) investors attempt to strike a happy medium between these two extremes. GARP investors attempt to take advantage of the fact that it is relatively easy to identify stocks that are growing rapidly and steadily; but they try not to pay too much for this superior growth. GARP investors seek out growth, but (as the name implies) they attempt to pay a reasonable price.