



# What Investment Approach Suits You?

It's not surprising that there are as many investing "styles" as there are people who have them. After all, everyone's financial situation is different. So too, is their risk tolerance, their comfort level with various investing tools, and their investment time horizon. As a result, there are no "cookie cutter" investment approaches and no two investment plans are identical.



There are certain themes or approaches that can be suitable for different types of investors. As you consider your own investment plan, understanding these approaches may help you determine what your investing style is. With regard to investments in common stocks, two of the more popular investment strategies today are known as growth investing and value investing.

Very simply, a "growth" investor invests in companies that have the potential to enjoy earnings growth, while "value" investors seek out companies that they believe are undervalued. Both approaches have merits – let's take a closer look.

***Growth investing*** – A growth investor tends to pay particular attention to a company's income statement and its ability to boost earnings over the long-term. Specifically, these investors look at a firm's revenue and earnings in comparison with companies within the same industry and evaluate

whether its revenue and earnings will show consistent growth going forward. Growth investors look for companies that may grow faster than the overall economy. Growth stocks are often identified by a track record of consistent growth, below-average dividend yields, and above-average return on equity.

Investors, who invest in growth stocks, tend to enjoy a couple of potential advantages. First, earnings growth can protect a company and its stock during a period of economic weakness. Earnings increases and strong cash flow are often appealing to investors during economic uncertainty. However, it is important to remember that even companies with strong cash flows are susceptible to economic downturns, which could cause their stock values to decline. As a result, your shares, when sold, may be worth more or less than your original investment.

## Financial Planning

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**Value investing** – As the name implies, a value investor looks for stocks that appear to be undervalued. While there is some subjectivity involved in these assessments and the indicators used to evaluate these stocks can vary by investor, there are several widely recognized measurements that you can look at to help in this analysis.

First, and probably the most common indicator, is valuation multiples – particularly a stock's price/earnings (P/E) ratio. You can calculate this by taking a stock's current price and dividing it by its earnings per share. A strict valuation investor would say that a stock with a certain P/E or lower would be considered a value stock and possibly worthy of investment.

Other value assessments evaluate relative valuation. That is how the stock is measured against another indicator or other companies within the same industry group. For example, a company with a P/E multiple of 20 might appear to be high at first glance. However, if companies within the same sector are trading at a P/E of 25 or higher, it might be an investment to consider. Of course, the individual company's P/E multiple history must also be taken into consideration.

A value investment approach offers several potential benefits. First your portfolio might get a boost if a company's shares are trading at a price lower than what they are considered to be worth. Additionally, this style may limit your downside risk if a company's assets have greater value than what the market is currently paying.

As with growth investing, measurements used to identify potential value stocks are not foolproof. Even the price of stocks with attractive P/E ratios fluctuate – meaning the stock may be worth more or less than when you bought it should you decide to sell it.

Whether you are a growth investor, prefer a value approach, or like to mix the two, having an understanding of these basic investing styles can help you evaluate your investment portfolio in the context of what you are comfortable with and what your financial goals and objectives are. You may also find it helpful to sit down with a financial professional to help you make these evaluations and give you additional ideas. ■

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