Finding growth in value, and value in growth

MINDY TAN finds out whether value investing and growth investing – two strategies in fundamental analysis – are suitable for the young investor

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It is the desire to grow investments that fuels the human spirit. As the old saying goes: "The stomach that is never filled is never satisfied." When this natural desire to grow is combined with knowledge of basic investment analysis – the study of financials, market trends and economic conditions – young investors can be successful in realizing their investment goals.

The Fundamentals

According to Nanyang Technological University's School of Business, fundamental analysis is one of the key pillars of investment analysis. Unlike the technical analysis of charts and trendlines, fundamental analysis is a method of evaluating companies based on their underlying financials and economic conditions. The analysis is made on the belief that a company's true intrinsic value is higher than its current market price if it is undervalued.

Value investing

Value investors or investors who seek companies that are undervalued by the market and therefore has the potential to increase in value, are often unmatched. Dr Kong Yoon Kee, lecturer from the division of banking and finance, at Nanyang Business School, states that investors should ensure that the low PE ratio is not due to a unsound fundamentals or the company will not be able to increase in value.

Growth investing

In general, value investment and growth investment are more appropriate for portfolio managers as they can directly influence the stock's performance. "Typically, value investors look for a stock that is undervalued, while growth investors look for a stock to grow," says Prof Jana. "In other words, value investing involves buying a stock that is priced below its true value, whereas growth investing involves buying a stock that is priced above its true value."

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