Value, Income, and Growth: Your Investment Trifecta

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Value, Income, and Growth: Your Investment Trifecta

By Jim Pearce (bio at end)
June 8, 2018

There is a fallacy on Wall Street that income stocks cannot also be reasonably-valued growth stocks. Any company that pays a dividend yield greater than 2% is viewed as throwing away money that could otherwise be used to grow its business.

The problem with that theory is that, at some point, the marginal return on that last dollar invested in growth can turn negative if there is simply no good way to spend it. That is why so many tech companies are sitting on huge piles of cash, unable to find a legitimate use for it and unwilling to return it to their shareholders for fear it may come in handy later.

Since high-yield value stocks are out of favor at the moment, the result is an occasional eruption when one of these companies disproves that theory by posting better-than-expected growth in revenue.

Such was the case for retailer **Signet Jewelers**, which jumped 20% after the company released Q1 results on Wednesday that exceeded estimates for sales.

That is the good news. The bad news is Signet is still in negative territory for 2018 after taking an equally large plunge following the release of its 2017 results three months ago. From a long-term perspective, it is worth nearly two-thirds less than its all-time high price of $152 achieved in October 2015.

Amazon Survivors

Signet's chart looks similar to that of many other "bricks-and-mortar" retailers that have been beaten down by the **Amazon** e-commerce revolution.

Five years ago, **Best Buy** found itself in the same position that Signet is in now. Best Buy was one of the first mainstream electronics retailers to be directly affected by Amazon since its biggest selling product line at the time, CDs containing video and audio content, could be easily digitized and sold online.

Since then, Best Buy has come back with a vengeance. The stock has doubled in value over the past two years and hovers more than 50% above its previous all-time high price from 12 years ago.

More recently, **Target** has rallied 50% off its low from one year ago after it proved it could grow revenue in the face of Amazon. And, just last month, **Macy's** shot up 40% after it released Q1 results that revealed improving sales.

You may think that all four of these companies would have had to suspend paying their dividends to marshal the resources necessary to mount a recovery, but that is not the case.

Even during their darkest hours, none of these companies skipped a dividend payment. In fact, just the opposite occurred. All of them consistently raised their dividend payments regardless of how their stock was performing.

For that reason, seven months ago, I compiled a short list of five retailers that I believed were oversold and ripe for a recovery. The four stocks mentioned above were on that list, as was **Bed Bath and Beyond**. I bought all five of them in my personal account, under a heading I titled "Amazon Survivors."

I am curious to see if BBBY will bounce back like the other four have. It is down 9% since I bought it last November, but has recently shown signs of bottoming out. In the meantime, it pays a quarterly dividend of 16 cents which annualizes out to a 3.2% yield.

Thus far, that group is up 29% on average, making it the best performing sleeve in my portfolio so far this year.

If you are looking for some growth stocks to buy this year, you may want to look at income stocks similar to these that have bottomed out and are being overlooked by the rest of the market.

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Jim Pearce is the Chief Investment Strategist of *Personal Finance*, our flagship publication. He is also the Director of Research at Investing Daily, overseeing the work of our entire analyst team. He began his career as a stockbroker in 1983 and over the years has managed client investment portfolios for major banks, brokerage firms and investment advisors. Jim has a BA in Business Management from The College of William & Mary, and a CFP from the College for Financial Planning.