Module 7 Activity

Dividend Vs. Growth Stocks

There's Two Main Types Of Long-Term Investors

Some people might prefer to buy investments that grow in value over time instead of investments that pay regular income because they are looking for long-term, sustainable growth. These types of investments can provide a more secure future, as the value of the investment increases, providing an even higher return on investment. Additionally, investments that grow in value over time may be less volatile than investments that pay regular income.

This is particularly important for those who are retired and need consistent returns to support their lifestyle. Furthermore, these types of investments can provide tax benefits as capital gains taxes on invested assets are often lower than income taxes on regular income received from other sources.

Long-term growth investments also allow investors to diversify their portfolios and take advantage of different economic cycles throughout different geographic areas and markets. This type of diversification can help reduce risk and help investors achieve their goals faster. In addition, the appreciation of assets over time provides a hedge against inflation; as inflation rises, so does the value of the asset.

Finally, with long-term growth investments, investors do not have to worry about reinvesting their dividends or interest payments in order to achieve additional returns; once purchased, these types of investments typically require very little maintenance or attention until it is time to sell them off or distribute them among different portfolio components.

So What's Better: Growth Or Value Stocks?

Investing is a tricky business and many individuals and corporations have different preferences when it comes to buying investments. Generally speaking, there are two types of investments: those that grow in value over time, such as stocks and real estate; and those that pay regular income, such as bonds and dividend paying stocks.

For starters, growth-oriented investments tend to have higher returns than income-producing investments in the long run. Stocks, for example, are known for their volatility but also their higher potential rewards over time. There are historical examples that demonstrate how stock prices can boom over a certain period—for instance, Amazon's stock price went from $25 per share in January 2011 to $3235 per share in May 2020, more than 128 times increase from its original value! Similarly, real estate is another asset class that has seen huge success stories — look no further than savvy investors who bought properties before the 2008 housing crisis (or even after) which massively appreciated in value over the years as demand increased.

Conversely, income-producing investments such as bonds generally offer lower rates of return but provide steady streams of income for investors. While bonds may have small movements in prices depending on market conditions or changes in interest rates , they are generally seen as safer investments with lower risk profiles compared to stocks or real estate since they provide reliable cash flow through coupon payments or principal repayment at maturity date.

Let's Talk Compound Interest

Of course there's also compound interest to consider when discussing investing strategies. Compound interest occurs when an investor earns interest on their initial capital plus any additional amounts added or earned during the time period – this process continues exponentially until reaching a limit (i.e., maturity date).

For instance if an investor puts $10k into a 5% compounded annual account they would earn roughly $12K after 5 years ($10K initial investment + 5% compound) rather than just a simple return rate of 5%. This is one reason why growth-oriented investments can be appealing - because investors don't need to contribute new money each year to benefit from compounding returns unlike with bond investing where you need to reinvest your cash flows each year for larger returns (e.g., you must continuously purchase new bonds every year for compounding effects).

And Don't Forget About Dividends

Finally, dividends can reduce the effects of compound interest but not eliminate them entirely-- this is because dividends are often treated differently from other types of capital gains thus they don't benefit from compounding growth in the same way as non dividend paying stocks do.

For example, let's take Apple vs Microsoft-- Apple pays out dividends while Microsoft does not-- thus Microsoft shareholders enjoy greater exponential growth due to compounding effects while Apple shareholders receive regular dividend payments but miss out on some potential gains due to less powerful compounding processes.

The Bottom Line Of Dividends & Growth

Different individuals have different preferences when it comes to investing—some prefer growth-oriented assets such as stocks or real estate which tend to offer higher returns over longer periods; others opt for income-producing assets like bonds which offer steadier streams of cash flow with lower risk profiles.

Finally, there's also compound interest dynamics which explain why some investors prefer non dividend paying stocks since they benefit more from exponential gains due to compounding whereas dividend paying stocks may experience reduced benefits due to taxes and other things associated with dividend payments.

Ultimately it's important for investors to know what type of return they're looking for before deciding which investment vehicle works best for them!

STANDARDS: 4.8.1a, 4.8.1b