NHBR

FEBRUARY 6 - 19, 2015 | NEW HAMPSHIRE BUSINESS REVIEW ■ NHBR.COM | VOL. 37, NO. 3, $1.75

# Which stock is more suitable – Google or GE?

Personal Finance

BY DANIEL COHEN

Investing in the stock market is never easy in the short run. The volatile movements can make the most seasoned investor second-guess his or her decisionws. Investors are always better served by having a clear objective accompanied by a strategic investment plan.

Some people invest for growth, some invest for income, and others for a combination of the two. In some years, growth-oriented companies perform best while in other years the more conservative dividend paying companies perform better.

Among the best performers of 2014 were the utility stocks, but most growth investors would typically not own utility companies. Utilities were traditionally owned by retirees looking for steady income from dividends with little concern for growth. It's best to focus on total return when structuring a long-term investment portfolio rather than chasing after last year's best performers.

Aside from the tax impact, the focus should be on total return. It would be so easy if we could rely on insured deposits at the bank or government bonds to deliver the returns most people need, but rates remain very low. Should a young investor with decades until retirement invest in a dividend-paying industrial or utility company like General Electric, and should a new retiree invest in a fast-growing biotech company or an Internet technology company like Google? Dividends from stocks can benefit the young investor looking for growth, just as capital gains can benefit the retired investor looking primarily for income.

Clients of all ages and risk profiles should broadly diversify their investment portfolios to help reduce market risk. It is not enough to simply own a lot of different positions.

Many investors got into trouble, years ago, by owning a lot of different technology stocks when that sector was hot. Investors thought they were diversified, but companies in a market sector tend to perform similar to one another.

It is important to diversify holdings across numerous market sectors and own shares of leading companies in each sector.

Who would have predicted that the utilities would have been among the top performers last year and the energy sector among the worst?

The goal should be to generate a total return, which is the sum of dividends plus capital gains. If one's long-term goal requires a 7 percent return and a company is paying dividends at a 3 percent rate, then only 4 percent is needed from capital gains. Remember that many companies have a history of raising those dividends each year, which also helps make the long-term goal more achievable.

Google is a favorite of many growth investment funds. It has almost tripled its revenue in the past five years and has doubled its earnings per share. The stock has achieved greater than 11 percent annualized returns during that time but pays no dividend.

## Growth and dividends

General Electric is considered a value stock, since it has a high dividend yield of more than 3.5 percent. Although its revenue has not grown in the past five years, it has been able to grow its earnings by cutting costs. The stock has achieved greater than 13 percent annualized returns during this time, including the dividend.

Both companies achieved good five-year returns but followed a much different path. All of Google's growth came from capital appreciation, as investors bet that the company would continue growing its revenue, and although it is very profitable, the company pays no dividends and instead retains their profits to reinvest in the company.

Part of General Electric's share price growth came from dividends and the rest came from capital appreciation, as investors anticipate that the company will be able to reduce costs and eventually grow the revenue again.

The growth-oriented investor should appreciate Google's rapid growth rate while the retired investor may consider Google's growth as a means to keep the portfolio ahead of inflation. The retired investor should appreciate General Electric's dividend yield while the growth-oriented investor may consider General Electric for the potential gains once their revenues start to accelerate. They will enjoy the dividends while they're waiting. NHBR

*Daniel Cohen, CEO and chief investment officer at Cohen Investment Advisors, Bedford, can be reached at 603-232-8351 or at investwithcohen.com.*