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Growth vs. Value Stocks: Understanding Two Core Investing Styles

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Not all stocks behave the same or serve the same role in your portfolio. Two of the most common investing styles are growth and value. While both aim to generate returns, they take different paths to get there. Growth stocks focus on future potential. Value stocks lean on current fundamentals. By understanding how each behaves, you can build a more balanced investment strategy.

CHARACTERISTICS OF GROWTH VS. VALUE STOCKS

Growth stocks represent companies expected to increase earnings faster than the market average. These businesses, often in sectors like technology, biotech, or communications, reinvest profits to fuel internal innovation and expansion, and thus pay lower than average dividends. Instead, investors in growth stocks rely on capital appreciation, the expectation that stock prices will rise as the company's potential becomes reality.

Growth stocks often perform well during bull markets, when the economy is expanding, interest rates are low, and investor confidence is high. They outperformed significantly during the 2010s tech boom but can experience sharp pullbacks when earnings disappoint or rates rise.

Value stocks, by contrast, represent companies that appear undervalued based on financial metrics like price-to-earnings (P/E) or price-to-book (P/B) ratios. These are typically mature businesses with predictable earnings and dividend payments, offering income while investors wait for prices to recover.

FEATURE	GROWTH STOCKS	VALUE STOCKS
RETURN SOURCE	Share price appreciation	Dividends + price recovery
DIVIDEND PAYMENTS	Below Average	Above Average
VOLATILITY	Higher	Lower
BEST MARKET CONDITIONS	Bull markets	Bear or recovery markets
INVESTOR PROFILE	Risk-tolerant, long-term	Conservative, income-focused
COMMON SECTORS	Tech, biotech, communications, consumer discretionary	Financials, energy, healthcare, consumer staples
EXAMPLE COMPANIES	Amazon, Tesla, Nvidia	Johnson & Johnson, Coca-Cola, Bank of America

Chart 1: A quick side-by-side view to summarize the key differences between Growth and Value Stocks

Value stocks tend to hold up better during bear markets, inflationary periods, or economic uncertainty. Their lower valuations and dividend yields can act as a buffer during market volatility, as seen in the early 2020s when value stocks outpaced growth.

GROWTH VS. VALUE STOCKS IN ACTION

Growth and value stocks can rotate in and out of favor. For example, in 2020 and 2021, growth outperformed value, which was then followed by value outperforming growth in 2022. Growth stocks have outperformed value in seven out of the last 10 years. This might lead one to believe they are all you need in a portfolio.

However, as Chart 2 demonstrates, things have been more even when taking a broader view and going back to 2000, with 13 growth years and 12 value years (although note value's seven straight years of outperformance from 2000 to 2006). Over this entire period, the two have been similar, with a 10% return for growth and 9% for value, and an identical standard deviation of 16%.

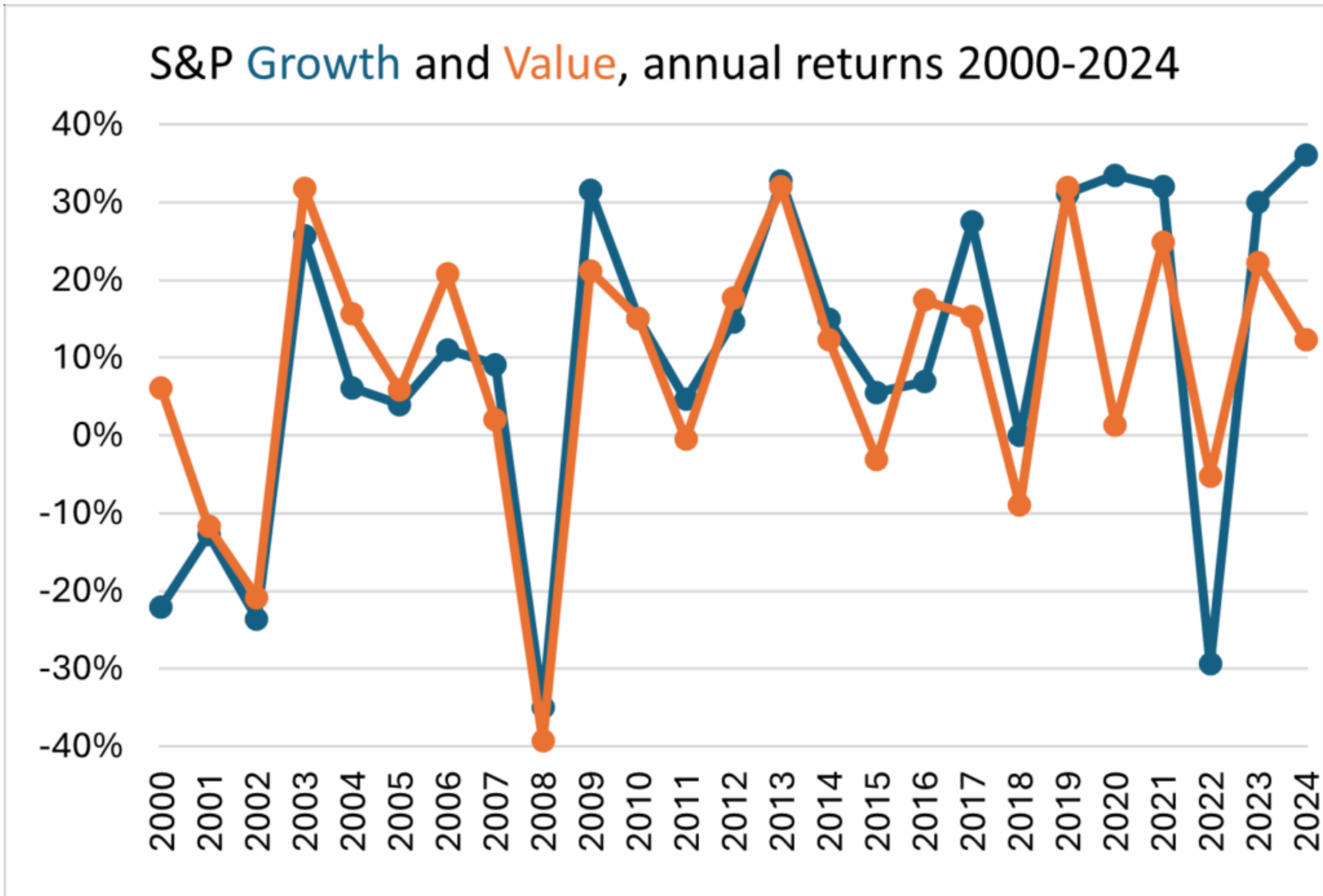

Chart 2

WHAT ARE THE RISKS?

For value stocks, the risk is that the negative sentiment that has resulted in a stock having a lower-than-average valuation is reinforced by subsequent bad news, and the stock continues to languish. In other words, bads news is followed by more bad news. This is known as a value trap. The main issue is that a market trend sustains itself longer than an investor thinks.

For growth stocks, the risk is that good news creates high growth expectations that generate lofty valuations. These high expectations set the table for subsequent disappointment as results, though good, may not be quite as good as hoped. The issue is that the market trend does not last as long as expected.

Taking a step back, the risk of value stocks is that market trends last longer than expected, while the risk of growth stocks is that the market trends do not last as long as hoped. Inasmuch as market trends can be common across stocks, the two investment styles can balance each other in their risks, too.

FINAL THOUGHTS: INVESTORS CAN USE BOTH FOR DIVERSIFICATION

Growth and value aren't opposites, they're complements. Growth looks to the future; value leans on fundamentals today. Each style brings different strengths, and both have a place in a diversified portfolio. Rather than choosing one style over the other, most investors benefit from holding a mix of both. Holding both styles in your portfolio can:

1. Reduce dependence on any one sector or trend
2. Smooth returns across different economic cycles
3. Provide a balance of long-term upside and short-term stability

A diversified approach blends the high-growth potential of certain sectors with the resilience and income of others. For instance, growth may lead during economic expansion, but value often helps stabilize returns in downturns. Since market leadership often rotates, a blended approach enhances stability.

Are you wondering if your portfolio leans too heavily toward one style? Want to see how your portfolio is positioned across growth and value? A Grimes advisor can help you evaluate your current allocation, identify style tilts, and keep your plan on track across changing market cycles.

This article is part of an ongoing series aimed to help build overall financial literacy, and was co-authored by Grimes & Company's 2025 Intern Gavin Walsh. While not a comprehensive deep dive into every single topic, it is designed to provide a helpful overview to key topics within the world of investing and financial planning. Please reach out to connect *with an advisor or expert on the subject to learn more and start planning for your financial future.*