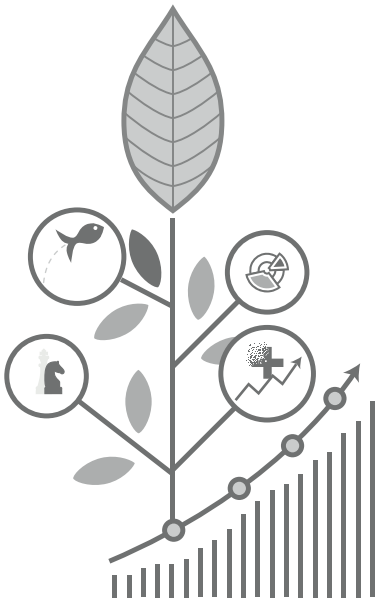
Introduction to Growth Investing

People have many different styles and tastes when it comes to money, but making your money grow is typically considered one of the most fundamental of investment objectives. The best way to accomplish this goal will vary according to factors such as the investor's risk tolerance and time horizon. But there are some principles and techniques that are applicable for many different types of investment objectives and growth strategies.

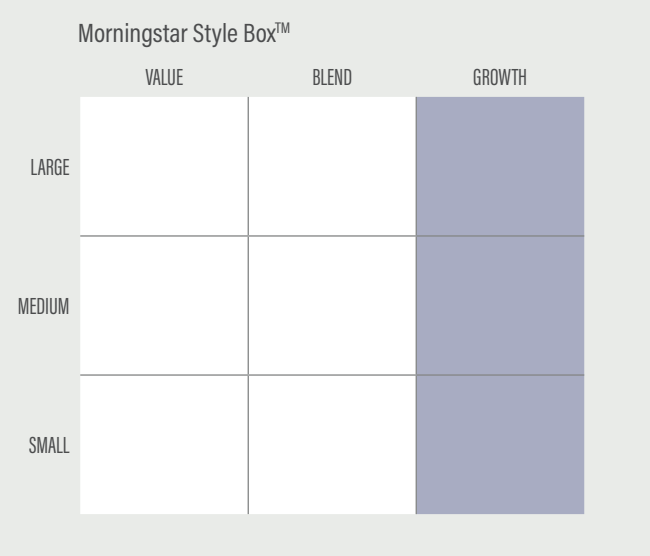
INVESTMENT ESSENTIALS

EQUITY STRATEGIES



What is Growth Investing?

Although you can grow your money through receiving any type of return on your capital, such as interest payments from a CD or bond, a more specific definition of growth investing is **the pursuit of increasing one's wealth through long- or short-term capital appreciation.** Growth investing is typically considered to be the "offensive" portion of an investment portfolio, with the "defensive" portion dedicated to income generation, tax reduction or capital preservation. When it comes to stocks, "growth" means that the company has substantial potential for capital appreciation, as opposed to value investing, where analysts feel that the price of the company's stock is trading below where it should be for temporal reasons that are likely to change in the foreseeable future. Rating organizations such as Morningstar™ classifies all stocks and stock mutual funds as growth, value or blend (growth + value) investments.



Types of Growth Investments

A few main categories of assets have historically shown the greatest growth potential. All of them involve equity in some form, and they usually come with a higher level of risk. Some types of growth investments include the following:

Small cap Stocks

The size of a company is based on its market capitalization, or the number of shares outstanding multiplied by current price per share. There is no exact, universal definition of what is considered to be "small cap" compared to micro, mid or large cap, but most analysts classify any company with a capitalization of between $300 million and $2 billion as a small cap firm. Companies in this category are often still in their initial phase of growth and the stocks of some have the potential for substantial appreciation in price. Small cap stocks may potentially post higher returns, but they are also typically more volatile and carry a higher degree of risk.

Technology and Healthcare Stocks

Stocks of companies that develop new technologies or offer innovations in healthcare are often considered growth stocks. The stocks of companies that develop popular or revolutionary products can rise exponentially in price in a relatively short period of time.

Speculative Investments

Thrill seekers and speculators look to high-risk growth potential instruments such as penny stocks, futures and options contracts, foreign currency and speculative real estate such as undeveloped land. There are also oil and gas drilling partnerships and certain alternative investments for aggressive investors that meet certain qualifications. Those who pick the right choices in this arena have the potential to see a significant return on capital, but they also have a higher likelihood of losing every cent of their principal due to the speculative nature of the investment.

Basic Concepts of Growth Investing

There are several key factors that must be considered when evaluating investment growth. The rate of growth, the amount and type of risk and other elements of investing play a substantial role in an investment's return. When it comes to stocks, some of the data that growth investors and analysts examine include the following:

Return on Equity (ROE)

ROE is a mathematical expression of how efficiently a corporation can make a profit. It is quantified as a percentage that denotes the company's net income divided by the total equity of the shareholders. For example, if one corporation has total shareholder equity of $100 million while another company has shareholder equity of $300 million and both companies have net income for the year of $75 million, then the company with the smaller shareholder equity is providing a greater return on equity because it is earning the same net income with less equity.

Earnings Per Share (EPS)

Although there are several types of EPS and the amount of money earned on a per-share basis does not tell the whole story about how a company is run, a company whose earnings per share are increasing over time is probably doing something right. Investors often seek companies that have an increasing EPS, but further research should be done to ensure that the EPS numbers are the result of genuine cash flow from legitimate business dealings.

Projected Earnings

Many short-term investors pay close attention to projected earnings announcements because they can have both immediate and future effects on a company's stock price. In fact, certain investors make gains trading on earnings announcements. For example, when a company's projected earnings come in higher than expected, the stock price will often rise quickly and then trend back down in the following days. But consistent positive projected earnings reports may help the stock to rise over time.

Conclusion

Now armed with some basic terms associated with growth investing you can supplement your knowledge with information on other investment styles, fundamental and technical analysis, and market research. When it comes to investing, information is critical to determining the right investment style for you.

> When it comes to stocks, "growth" means that the company may have potential for capital appreciation.

Contact your financial advisor to learn more about INVESTMENT ESSENTIALS or please visit amgfunds.com/essentials for more information.

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The foregoing discussion is general in nature, is intended for informational purposes only and is not intended to provide specific advice or recommendations for any individual or organization.

Investors should consider their own personal financial situation, investment goals, risk tolerance, investment time horizon and tax situation before investing. Please consult a financial professional regarding your specific financial situation before investing.

Investing involves risk, including possible loss of principal.

Growth stocks may be more sensitive to market movements because their prices tend to reflect future investor expectations rather than just current profits. Growth stocks may underperform value stocks during given periods.

Investments in small capitalization companies are subject to risks such as erratic earnings patterns, competitive conditions, limited earnings history and a reliance on one or a limited number of products.

Companies that are in similar businesses may be similarly affected by particular economic or market events; to the extent that investments are concentrated within a particular sector, the risks associated with that sector increase.

Morningstar Style Box™: For stocks and equity funds the vertical axis shows the market capitalization of securities and the horizontal axis shows investment style of securities (value, blend, or growth). A darkened square in the style box indicates the weighted average style of the stock or equity fund.

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