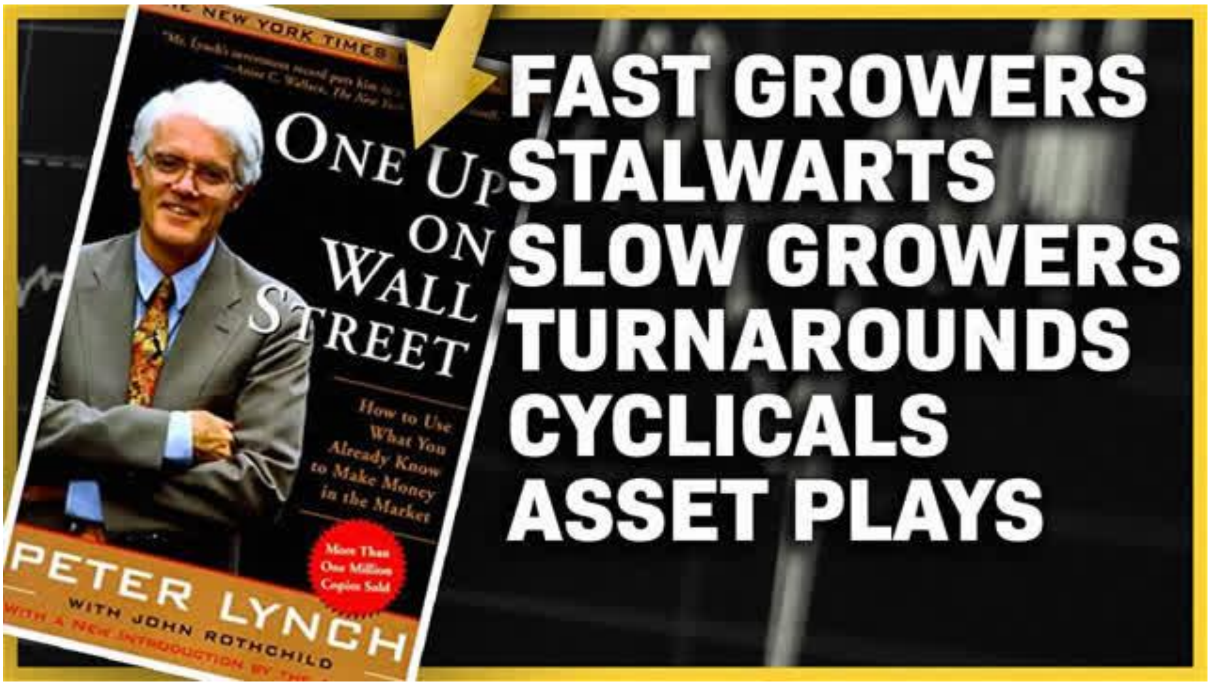
When looking at Google (GOOG) (GOOGL), an investor that just read Peter Lynch's book One Up On Wall Street would ask:

1. What is the safety of the investment, what are the main risks?
2. What is the earnings yield?
3. What is the likely future growth rate?
4. What is the investing outcome I can expect over the long-term?
5. How much should I pay for the stock?

We are going to give an answer the above questions by using Peter Lynch's stock categorization and investing expectations for the specific category. Google would definitely be a fast grower given its yearly revenue growth of 19.5% over the last 5 years.



Peter Lynch's 6 stock categories – Source: One Up On Wall Street

For each stock category, Peter Lynch described his expectations and the following are for a fast growing company (summarized by author):

- **If growth slows down the market doesn't like it**
- **If finances become an issue Chapter 11 (bankruptcy is probable)**
- **Look for good balance sheets making substantial profits**
- **Figure out when they'll stop growing and how much to pay for growth.**
- **At some point they will stop growing and turn into something else – that is the only guarantee. Check how much more room for growth there is.**
- **20 to 25 percent is the best growth – 50 percent is for hot industries and you know what that means (hot industries attract many competitors)**
- **Proven, profitable expansion in more than one city or country**
- **PE ratio should be below the growth rate**
- **Check whether growth is expanding or slowing down.**
- **Look for those that few institutions own and that few have heard of.**

Let's see how do the above apply to Google and whether it is a positive or negative:

- **If growth slows down the market doesn't like it**

Probably the biggest risk for Google, on a price to earnings ratio of 29, any structural slowdown in the growth rate would impact the valuation too. Thus, this would be a **NEGATIVE**.

- **If finances become an issue Chapter 11 (bankruptcy is probable)**

With minimal long-term debt and with the 2019 free cash flow hitting $31 billion, this is not an issue for Google. Thus, a **POSITIVE**.

- **Look for good balance sheets making substantial profits**

Google ticks this one perfectly, the balance sheet is strong with just $4 billion in long-term debt, return on capital employed has constantly been around the mid teen level and the business has high gross margins of 55%. There are many growth stocks, but few have a great business powering the growth. **POSITIVE**

- **Figure out when they'll stop growing and how much to pay for growth?**

This is the most important reason why I am not investing in Google. If the growth rate continues to be 15% per year over the next 10 years, earnings will hit $172, with a valuation of 30, what the market currently applies for the growth rate, the stock price would be $5,188. That would give you a return of 15% per year in line with the growth. Nothing bad with that.

								GROWTH RATE		1.15
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
EPS	$49.16	$56.53	$65.01	$74.77	$85.98	$98.88	$113.71	$130.77	$150.38	$172.94
VALUATION										30
							STOCK PRICE FUTURE			5188.164
BOOK VAL	297.76	$354.29	$419.31	$494.07	$580.06	$678.93	$792.64	$923.41	$1,073.79	$1,246.73

But, what if the growth slows down to 10% after year 5? And then to 4% after year 10?

GROWTH RATE		1.15	1.15	1.15	1.15	1.1	1.1	1.1	1.1	1.1
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
EPS	$49.16	$56.53	$65.01	$74.77	$85.98	$94.58	$104.04	$114.44	$125.88	$138.47
VALUATION										12
							STOCK PRICE FUTURE			1661.682
BOOK VAL	297.76	$354.29	$419.31	$494.07	$580.06	$674.63	$778.67	$893.11	$1,019.00	$1,157.47

The stock price in 2029 would be $1,661, for a return of 2.3% per year. This is assuming a valuation of 12 for a 4% growth rate.

You could argue that the cumulative earnings over the next 10 years of $908 would add value and have to be accounted for, but for the sake of this exercise let's exclude that. If you wish to include them, you can account them as a dividend each year. This leads us to the next question:

- **At some point they will stop growing and turn into something else – that is the only guarantee. Check how much more room for growth there is.**

What if in 5 years somebody offers the same what Google or Facebook are offering but without ads at all? First 10 years free and then with a monthly subscription price of $5. Perhaps they can even integrate your FB or Google account with theirs – it is your data after all.

I have no idea what will happen, so it is a growth stock risk reward situation, if the growth stops the situation turns ugly. And, the growth can stop at any time given the nature of the tech environment.

- **20 to 25 percent is the best growth – 50 percent is for hot industries and you know what that means (hot industries attract many competitors)**

Google is definitely not a hot industry anymore, a mature search engine with a moat. I would say the last 3 characteristics are a **NEGATIVE**.

- **Proven, profitable expansion in more than one city or country**

It is already global so that is another **NEGATIVE** and it is very unlikely it will be allowed to expand in China.

- **PE ratio should be below the growth rate**

PE ratio is double the growth rate, thus a risky play even for Lynch who loved fast growers. Another **NEGATIVE**.

- **Check whether growth is expanding or slowing down.**

Growth is slowing down. **NEGATIVE**

- **Look for those that few institutions own and that few have heard of.**

It is in the top of the S&P 500, too late for that! **NEGATIVE**

Apart from the fact that it has a good balance sheet, a good growth rate, a moat, it is a great business with a profitable and scalable business model, Google doesn’t meet many of Lynch’s fast grower criteria. Thus, at current levels, after the market has been in love with tech stocks for a long-time now, I would look elsewhere for growth companies to add to my portfolio as the risk and reward aren't that attractive.