

This Canadian Mid-Cap Stock Could Be a 10-Bagger a Decade From Now

Description

If you're a young investor who's hungry for the next multi-bagger, then you probably want to look at small-cap stocks with promising growth trajectories. Sure, large caps offer stability that can't be matched by the average small- or mid-cap stock, but if you shun "riskier" small-cap stocks just because of their market cap, then you're closing the door to many opportunities to obtain next-level returns over the long term.

Who knows? You may even pass up on an opportunity of a lifetime just because you decided to only invest in large-cap stocks.

There's nothing wrong with owning mostly blue-chip stocks in your portfolio, especially if you're a beginner DIY investor. But if you're hungry for growth and you think you have enough experience under your belt, then it may be time to do some homework on some lesser-known small-cap securities, which could have the potential to deliver superior results without an obscene amount of risk.

Consider **Spin Master Corp.** ([TSX:TOY](#)), an innovative toy company with a market cap which recently broke the \$5 billion mark. The company had been deemed "too small" to be included in the TSX Composite until recently.

Toy companies are cyclical and susceptible to the effects of seasonality, and Spin Master is no exception. With typical toy companies, the final quarter of the year is usually the strongest thanks to the holiday season. Then the rest of the year is usually pretty quiet. But with Spin Master, you get relatively consistent strong earnings reports throughout the year. The company has seen huge upward spikes followed by slight pullbacks, but the trajectory remains up.

Spin Master's durable competitive advantage is its ability to innovate. The company has a pipeline of promising toys which consistently churns out amazing products that kids can't get enough of.

Comparing toy project pipelines to pharmaceutical project pipelines

Think of the pharmaceutical industry pipeline. A drug coming out of the pipeline may be a major hit or a complete flop. If it's a hit, you get a surge of sales and a soaring stock price. If it's a flop, the stock remains flat or pulls back significantly if the general public is hyped up enough. Usually, hits drive sales for many years to come, and flops are usually brushed off or improved. It's not a big deal if a product coming out of the pipeline is a flop, but it is (to the upside) if a product is a hit!

In the pharmaceutical industry, you really won't know until the final stages of clinical trials show a particular pipeline product will be promising. That's similar to Spin Master's toy pipeline, but with one major difference: pharmaceutical pipelines are less predictable, but Spin Master's toy pipeline is considerably more predictable because its R&D team has a terrific vision and they know how to execute. The average investor could also gauge whether or not a toy will be a hit with kids, especially for those with kids themselves!

Spin Master's durable competitive advantage: Innovation

Hatchimals was a Toy of the Year for good reason. The tech was something new, and kids really couldn't get enough of the unique hatching process. This year, there may be another Toy of the Year in the new toys Luvabella and Luvabeau, lifelike robotic dolls that are as realistic as they get.

It's quite possible that Spin Master may have another blockbuster on its hands, and if that's the case, shares will surge, and that hot 40% ROE could fly even higher!

Normally, I don't recommend stocks that have only traded publicly for a few years, as they're notoriously difficult to value with limited financial data that's available. But with Spin Master, I believe it's a truly unique growth opportunity with a competitive edge. Shares of TOY may be a multi-bagger in a decade from now for those who are disciplined enough to buy now and hang on through thick and thin.

Stay smart. Stay hungry. Stay Foolish.

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