These 2 Small-Cap Growth Stocks Are Diamonds Buried Beneath the Dirt

Description

If you've been shying away from small-cap stocks, you're doing your portfolio a huge disservice, especially if you're a younger investor who can afford a little more risk.

Sure, large-cap stocks are more stable and are meant for the core of your portfolio, but small-cap stocks offer, on average, superior returns over the long haul. Small-cap stocks are volatile, no doubt, but if you've got a long-term time horizon and a stomach to ride out the volatility, you've got a lot to gain with higher-growth hidden gems that are dispersed across the TSX and TSXV.

If you're under 40, you should strongly consider sprinkling some small caps across your portfolio to bring your returns to the next level, but beware! There's a lot of garbage out there, including TSXV-traded venture mining securities that have lacklustre fundamentals and that have been relentlessly promoted through television advertisements.

If you watch any business news channel, you're likely to see a tonne of such stocks being promoted endlessly during commercial breaks. Avoid these stocks at all costs! Don't take a leap of faith in a business where there's no information other than the management team's commentary. Instead, do your own homework and keep digging, as there are hidden gems that are buried deep beneath the tonnes of dirt.

Here are two diamonds that I've found in the dirt that you should consider today:

Boyd Group Income Fund (TSX:BYD.UN)

Boyd is a collision repair shop operator whose wings spread all across North America. The company is an M&A success story, whereby the company scoops up its smaller competitors and drives it efficiencies through the roof.

This strategy has resulted in a huge amount of earnings growth over the years. The North American auto repair industry is still extremely fragmented, leaving a massive growth runway for Boyd, as it continues to consolidate the industry one accretive acquisition at a time.

Although pricey at 72.65 times trailing earnings, it's remarkable to note that Boyd is still very capable of achieving double-digit earnings-growth numbers in the high to mid teens. In addition, ~80% of Boyd's locations are in the U.S., so Boyd is slated to be a major beneficiary of U.S. corporate tax cuts.

Spin Master Corp. (TSX:TOY)

This is a classic buy-the-dip stock that has rewarded contrarians many times over the past year. Spin Master isn't just one of the fastest-rising Canadian stars, but it's arguably the hottest firm in the entire toy industry.

The management team has innovation in its veins, and the result has been Toy of the Year winners that have been absolute hits with kids. The result? Off-the-charts earnings growth that will likely send this company into the $10 billion market cap range over the next decade.

Spin Master is a fine example of a business that's leveraging technology to get the leg up on industry incumbents that have struggled to innovate. Over the next few years, I believe the toy industry will be a lot more like a tech industry, and there's no better way to play this transition than with Spin Master, which is arguably the highest tech children's entertainment company.

Bottom line

These are two high-growth small-cap names that I believe every Canadian investor should have on their radars. Both firms have impeccable fundamentals and a growth runway that'll likely result in extraordinary returns over the next decade.

Of course, there are many more hidden gems just these two that are out of the radar of the general public. I'd strongly urge investors to consider incorporating such small-cap names in their portfolios for superior long-term growth.

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