Is Bombardier, Inc. a Good Bet to Outperform the TSX?

Description

A common way for investors to gauge the performance of a stock or their own portfolio is by comparing the returns against those of the market. Although the TSX may be easy to beat so far this year, in the past five years it has grown 24% in value for a compounded annual growth rate of 4.3%

I'm going to take a look at **Bombardier, Inc.** (TSX:BBD.B) and evaluate if the stock is a good buy and if it's a safer place to store your money than if you were to try and mirror the TSX.

In just the past three months, Bombardier's stock has risen more than 22%, and over the last year the share price is up nearly 90%. However, it wasn't until its deal with Airbus was announced that investors became bullish on the stock. Although I wasn't a fan of the deal, it did give the share price a big lift, and it already has helped attracted some more sales.

The problem is that Bombardier is still a risky stock, and there are many reasons to stay far away from it. However, that's also what makes this company a good comparison to the TSX.

Which is the better option: the TSX or Bombardier?

Which has more room to grow?

In essence, we are looking at two different investment options that are coming from two ends of the spectrum. In the TSX, you have some very highly valued stocks that have gotten very expensive, although a recent pullback in the market brought some of those prices down.

That being said, there are considerable headwinds that could be impacting the Canadian economy this year, ranging from NAFTA uncertainty to rising interest rates. Meanwhile, outside of the rally that we've seen in Bombardier's stock the past year, the share price had previously been falling like a stone.

While Bombardier is still a long ways away from the highs it reached several years ago, there are signs that the stock may have started to slow down. In the past month, the share price has declined more than 2%.

The TSX has seen a significant sell-off as well this year, and more than a few stocks have taken some unnecessary hits, and so there is some upside from here.

Given the TSX's recent drop and Bombardier seeing too big of an increase in the past year, my money is on the TSX outperforming Bombardier from this point forward.

Which option is riskier?

Mirroring the market is always the preference for risk-averse investors, unless you are bearish on the economy. And although there are concerns about the economy's potential for growth, I'd be more concerned about Bombardier's fundamentals and its long-term success.

Bottom line

Even against the lowly TSX, I can't see a scenario where Bombardier is going to outperform the market. The stock simply carries too much risk, and it looks as though it may have hit a peak.

The TSX's dip this year has created many buying opportunities for investors, and mirroring the TSX will not only net you better returns, but your money will also be safer.

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