

Could You Rake in the “Easy Money” With This Soaring Canadian Stock?

Description

Following the [“easy money”](#) or momentum investing is a strategy that some investors have found success with. A great deal of positive momentum indicates that the underlying business is firing on all cylinders and it's a given that the year-ahead outlook is positive.

Momentum stocks that consistently soar to new all-time highs are typically priced at a hefty premium though, so if you're not paying close attention to the fundamentals and are just riding the wave up, you may get hit with a very sharp and sudden correction in shares. This will probably spook you out of your position before it has a chance to bounce back from what could be a non-event.

Implementing a momentum strategy isn't without its risks, especially if you fail to ensure proper due diligence before hitting a “buy” button. If you're investing, not trading, you need to analyze the relative valuation and the longer-term prospects. Following the “easy money” blindly is not an effective strategy and could result in substantial losses.

Consider **goeasy Ltd.** ([TSX:GSY](#)), an alternative financing company that provides consumer loans and home product leases to Canadians.

The stock has been red-hot over the past two years, soaring 145% over the timespan. While you may think a momentum strategy would have worked well with the stock, you'd be wrong, as the ride up has been really rocky with a nasty 27% peak-to-trough plunge thrown and a handful of 10% declines within the timespan, during which goeasy stock [more than doubled](#) over the course of just two years.

If you flinched once to any of the drops, you missed out on a great deal of upside. In spite of the volatility, the longer-term trend remains up, and I think the stock could continue to reward shareholders with a substantial amount of capital gains with one major caveat.

Goeasy is in the business of subprime lending or “predatory lending.” So, depending on your moral beliefs, the company may not be right for you, especially when you consider that the company plays a role in the fuelling the indebtedness of the average Canadian consumer.

Canadians are heavily in debt, and as they continue to borrow at subprime rates, they're going to fall deeper into the abyss of debt until they step up to the plate and take command of their own personal financial situations. The baby boomer generation has accumulated a great deal of wealth, leaving the millennials with a less than peachy financial situation that may require both loans and leases from a company like goeasy.

Foolish takeaway

Goeasy isn't your run-of-the-mill alternative lender. It has a lot going for it as nationwide debt-fuelled consumption continues to soar.

Although alternative lenders may be seen as immoral or predatory, I'd argue that goeasy is merely

providing a means for individuals to finance their “needs” or “wants.”

They’re not an evil-doer. The responsibility lies on the prospective borrower to use the financing on “needs” if they’re forced into a dire financial situation. Those who use loans for reckless spending on “wants” will dig themselves deeper into a hole, and goeasy is no more at fault than an issuer of credit cards.

Potential regulatory measures to put a stop to the massive indebtedness of Canadians could derail the goeasy thesis, however. So, investors ought to ensure due diligence before backing up the truck on shares today. I’d advise getting some skin in the game, but be warned, volatility will likely be on the horizon, so please don’t invest a sizeable chunk of your capital!

Stay hungry. Stay Foolish.

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