1 Magic 3-Stock Pick for High 5-Year Returns

Description

Software, metals and mining, and pharmaceuticals may seem like obvious choices for high growth, but what's wrong with obvious choices? Without trying to reinvent the wheel, here is a high-growth mini-portfolio of three outperforming stocks, complete with data for individual stocks as well as its total long-range returns.

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Descartes Systems Group (TSX:DSG)(NASDAQ:DSGX)

Up since the start of the year, Descartes Systems Group is one of the top tech stocks on the TSX index that make up the DOCKS, Canada's answer to the FAANGs. Its one-year returns of 26% beat the industry, while its track record similarly holds water, with a 16.4% past-year earnings-growth rate rounding out a 19.3% five-year average.

Value investors may have to look past a high P/E of 86.8 times earnings and P/B of 5.1 times book towards a projected 27% annual growth in earnings, while low debt at 4.8% of net worth suggests a relatively low-risk play.

Lithium Americas (TSX:LAC)(NYSE:LAC)

One of the most popular metals and mining stocks on the TSX index, Lithium Americas is also a top choice for high returns, seeing 90-day returns of 138.4%. Its one-year past earnings-growth rate of 20.5% and low level of comparative debt at 11.5% of net worth make for a good-quality investment, ticking strategic boxes in terms of its track record and balance sheet, respectively.

HEXO (TSX:HEXO)

Though HEXO may have spooked some investors by crashing at the beginning of October, it's been on the up since the tail end of December. However, with a 3.01 beta relative to the Canadian pharmaceuticals industry average, it should be no surprise that this cannabis ticker can buck and kick like a mule.

The bright side is that this kind of momentum can amply reward the gutsy investor: indeed, 90-day returns of 63.8% show that HEXO has what it takes to make a lot of rich folk a whole lot richer, and fast.

What are the five-year returns for this trio?

As should be expected by a high-growth portfolio, this grouping is overvalued. It's almost double its future cash flow value, while a P/E ratio of 85.6 times earnings joins a P/B ratio of 4.5 times book. Looking beyond the value aspect, total capital gain in five years would amount to 185.3% — a significant percentage indeed; this breaks down as a 50.8% expected annual growth in earnings.

In terms of volatility, Lithium America's five-year beta of 2.35 pulls up this three-stock grouping's average to 1.48 (compare with Descartes Systems Group's 0.62); however, the risk quotient is lowered by a total portfolio debt of just 5.44% of net worth.

The bottom line

Any three of these stocks would make for a high-growth play on their own; their estimated single five-year yields are as follows, in descending order: HEXO: +474.84%; Descartes Systems Group: +186.33%; Lithium Americas: +89.24%.

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A high-growth portfolio with so-so track record and holding for shorter periods would result in different returns percentages for this supercharged trio: for instance, holding for three years would give total capital gains of 172.5%, while a one-year holding period would result in gains of just 13.4%. Meanwhile, a short-term TSX index trader could theoretically look to gain 48% in three months with this three-stock grouping.

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TICKERS GLOBAL

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2. NYSE:LAC (Lithium Americas Corp.)
3. TSX:DSG (The Descartes Systems Group Inc)
4. TSX:HEXO (HEXO Corp.)
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