



3 High-Quality Stocks for New Canadian Investors

Description

With a high return on equity and low debt to match, the following three stocks represent some of the highest quality investments to be found on the **TSX Index**. With a return on equity of over 30% and a debt to equity ratio below 1, here are some of the most recognizable – and healthiest – Canadian stocks to buy and hold in a brand new portfolio.

Canada Goose ([TSX:GOOS](#))([NYSE:GOOS](#))

Most investors will be aware of the [Canada Goose](#) brand, with its luxury outdoor clothing ranges for all ages. What newcomers might not know is how popular this stock is with analysts despite its clear overvaluation.

Canada Goose regularly tops the list of TSX stocks to watch, and in fairness, its track record is considerably more solid than many competing assets, with year-on-year returns of 45.3% that beat the Canadian luxury industry average of 36.6%.

Looking at profitability, Canada Goose had a good year, with earnings growth of 120.9%, bringing its five-year earnings to an averaged 55.1%. What landed it on this list of high-quality stocks, though, was a mix of a high ROE for the year of 37% and a “safe” level of debt at 37.9%. A 28.2% projected earnings growth rounds out the reasons to buy.

In the “against” column are pretty much all of its market ratios, though. From a PEG of 1.9 times growth to a high P/E of 52.5 times earnings, this stock is clearly overheated, while a P/B of 19.4 times book would put off even the most relaxed value investor.

For a company that makes clothing, Canada Goose's stock has a surprising amount of momentum. It's able to gain and shed fast: look at its 5.06% drop in the last five days, for instance. Data-focused investors are probably aware of its high beta of 2.87 relative to the market, meanwhile – a key indicator of high volatility.

Norbord (TSX:OSB)(NYSE:OSB)

For a reliable wood products stock, one can't do much better than [Norbord](#). Its past-year ROE of 34% is significantly solid, and its level of debt to net worth has been brought down over the last five years to a current 80.3%. While that level is within the higher risk zone, it's well covered by operating cash flow.

A five-year average past earnings growth rate of 56.9% shows that this stock is positive overall, while the market fundamentals paint a picture of a fairly valued stock, with a price-to-earnings ratio of 7.4.

Perhaps the main reason to buy and hold stock in Norbord would be its sizeable yield of 7.33%, which is augmented by a modest but positive 4.3% projected growth in earnings over the next couple of years.

Parex Resources ([TSX:PXT](#))

An oil and natural gas stock that has displayed healthy all-round statistics for some time, a past-year ROE of 32% and zero debt are what landed Parex Resources on today's list. While Parex Resources has seen negative returns in the last 12 months, it's still managed to outperform the Canadian oil and gas industry by a few percentage points.

The bottom line

Investors looking to make money with Canadian stocks over the long term should keep an eye on indicators of quality such as return on equity and debt. The above three stocks tick all the boxes, though would-be buyers would have to decide whether value, passive income, or the potential for high capital gains are their main focus, since no single stock covers all bases.

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TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)
3. TSX:PXT (PAREX RESOURCES INC)

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