3 Traits of the Best Stocks

Description

Who doesn't want to make good money in the stock market? We can increase our success rate by investing in the best stocks. Here are three traits that the best stocks should have.

High return on invested capital

A company that generates high returns on invested capital (ROIC) indicates that management is very efficient in allocating capital for profitable investments. Just having a year or two of high returns on ROIC doesn't cut it, though.

Biosyent (TSXV:RX) has a track record of generating high ROIC — its ROIC has been 20% or higher every single year since 2011!

Biosyent's business model simply works because it sources, acquires, or in-licenses innovative pharmaceutical products that have already been proven to be safe and effective to improve the lives of patients in other countries.

High return on asset

Because of Biosyent's unique business model, it also generates consistently high returns on assets (ROA). Generating high ROA indicates how efficient Biosyent's management has been using its assets to generate earnings. Like its ROIC, the healthcare company's ROA has also been 20% or higher every single year since 2011.

Revenue growth

Revenue growth indicates that there's an increasing demand for a company's products or services or that the company has introduced new products or services or made an acquisition. Furthermore, revenue growth often leads to earnings growth.

Biosyent's five-year revenue growth averaged 17% per year, which is very decent growth. However, its first-quarter revenue growth was only 1% higher compared to the same period in 2018. The slowdown in revenue growth is partly why the stock has corrected severely in the last year.

The recent approval for Biosyent's new drug, Tibella, which falls under the women's health market, should help spur revenue growth.

Foolish takeaway

Last year, Biosyent generated $21.5 million in revenue and $5.7 million in net income. Additionally, its balance sheet is very clean with no debt and more than $13 million of cash and cash equivalents have piled up. Therefore, management is very patient and careful with its investments.

Biosyent stock has fallen 31% in the last 12 months. However, now is not the time to second-guess the stock. Its history of double-digit revenue growth, and high ROIC and ROA are fabulous. They show that management has allocated capital in the right places.

Now that the stock has corrected meaningfully to a blended price-to-earnings ratio of about 16.9 — the cheapest level since 2013 — it's just a matter of time before the profitable stock makes a comeback. So, I believe that Biosyent is still one of the best small-cap stocks higher-risk investors should take serious consideration in.

Thomson Reuters has a 12-month mean target of $9.83 per share on Biosyent, which represents near-term upside potential of nearly 45%!

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