2 Steady Growth Stocks for Your TFSA in 2020

Description

Growth stocks tend to be notoriously volatile and unpredictable. In my opinion, that makes it difficult to take long-term investment decisions on companies expanding rapidly. After all, what's the point of double-digit growth if the company goes bankrupt just a few years before my retirement?

With that in mind, I prefer to focus on stocks with a healthy pace of growth *and* a reasonable rate of annual volatility of returns. In other words, I'm looking for stable growth stocks that can really deliver the compounding effect I need to retire wealthy.

Here are my top two picks for 2020 and, by definition, forever.

CGI

Information technology giant **CGI Group** (TSX:GIB.A)(NYSE:GIB) is everything I like — stable, rapidly expanding, and thoroughly Canadian.

Few companies that have been around as long as this one are still growing this fast. This year alone, CGI stock is up 22.9%. Over the past five years, it's up 156%, implying an annual growth factor of 20.68% on average.

However, that double-digit growth rate isn't the only reason I like it. The other double-digit metric that makes CGI stand out from the rest is 41%. That's the level of volatility the company's stock has compared to the market average (a factor known as beta).

Low-beta stocks tend to move around less than the market in general. So, if the market were to swing 1% on any given day, chances are high (although not exact) that CGI's stock will swing roughly 0.41%.

What's the underlying reason for this robustness? CGI's cash flows ($1.57 billion), low debt (38.9% of equity), global diversification (services in 40 countries and only 15% of sales generated in Canada), and adaptive business model could have something to do with its relative stability.

Constellation Software

Another robust winner is tech conglomerate **Constellation Software** (TSX:CSU). Constellation's stock has had a better run than CGI over the past five years — quadrupling in value since 2014.

The company's growth is driven by mergers and acquisitions, which means it's a good thing the valuations of smaller tech companies have been declining this year. Constellation has enough of dry powder ($243 million in cash and cash equivalents) to snap them up.

Meanwhile, the dividend-payout ratio is conservatively low at just 20%, and the beta is better than average at 0.93. This combination of low beta and high growth makes Constellation a favourite tech bet for long-term investors.

Admittedly, Constellation is more volatile than CGI, since the investment holding business is less stable than the consulting business. However, I believe shareholders are compensated for this with Constellation's higher rate of expansion. Constellation's investment track record over the past 25 years speaks for itself.

Bottom line

Low-beta, high-growth stars like CGI and Constellation Software deserve to be permanent fixtures in growth-oriented portfolios. Few other companies that have been around for so long and have expanded to such magnitude are still growing at double digits. Other growth companies of similar size are usually less predictable and more volatile, which makes them inappropriate for retirement investing.

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1. Investing
2. Tech Stocks

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2. TSX:CSU (Constellation Software Inc.)
3. TSX:GIB.A (CGI)

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