



2 Good Stocks to Buy in 2020: Best Technology Buys in Canada

Description

If you aren't sure what stocks to buy in 2020, technology is always a great option, although technology tends to be pricier compared with other industries.

Technology promises both high returns and considerable risk because the economy is continuously innovating. Thus, Canadians must look for firms with substantial market power who stand a chance at outliving the creative destruction in the marketplace.

There's also a considerable trade-off between value investing and buying stocks with staying power. Efficient markets dictate that any profit worth capturing has already been snatched up by other economic actors.

Economists like to joke that you should never find a \$20 bill just lying on the ground because someone else should have picked it up already.

Luckily, the stock market is inefficient enough to where you can still profit if you do your research. To help you along, here's an example of how to analyze stocks against the efficient market hypothesis.

An expensive stock with high growth projections

Constellation Software ([TSX:CSU](#)) is a favourite among well-versed investors on the **Toronto Stock Exchange**. As such, it is the most expensive technology stock you can buy in Canada. Not everyone can afford to shell out \$1,235.58 per share (although fractional share purchases are becoming easier!).

In the past year, the market value of [Constellation Software](#) has grown by 41.79%. At this point, with a trailing price-to-earnings (P/E) ratio of 62.30, everyday Canadians are probably better off sitting out the party with this stock.

If you are interested in placing a bet on Canada's tech industry, *Yahoo Finance* reports a forward P/E of 34.27, meaning analysts expect earnings to increase by over 36%.

The technology industry tends to have higher P/E ratios. If you want to invest in technology, the P/E ratio on Constellation Software shouldn't necessarily be a deterrent. As for as Canada's technology

sector goes, a position in Constellation Software is a reasonably safe bet.

A cheaper technology stock with lower-than-expected earnings growth

If you're looking for a more [affordable technology stock](#) to buy on the **TSX**, you can't go wrong with the **CGI Group** ([TSX:GIB.A](#))(NYSE:GBI).

CGI Group is one of Canada's more prominent technology companies, with a global geographical reach in Europe, France, and the United States. This company outsources information technology management and consulting.

The company sells for much less than Constellation Software at \$109.30 per share at writing. Further, the trailing P/E ratio is 24.02 per share, meaning that you are paying 60% less for each dollar of earnings by purchasing CGI stock rather than Constellation Software.

While it's true that CGI runs less risk of overvaluation, analysts also expect the company to grow less next year. Year-over-year quarterly earnings growth on CGI stock is only 10.4%, while Constellation has reported an earnings increase of two times that at CGI. Moreover, Constellation announced a return on equity of 63.42% over the past year, whereas CGI reported a respectable 18.62%.

Stock market traders have already priced in the higher growth projects at Constellation Software, hence the higher P/E ratio.

The question is whether Constellation will continue delivering high-growth beyond the time frame priced in by the market. Again, P/E ratios are a potent reminder that stock market investing is indeed a long-term endeavor.

The good news is that you don't have to think too far ahead of analysts and professional traders to make money in the stock market. All you need to do is use good old-fashioned common sense when making financial decisions.

CATEGORY

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

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