Canada Stock Market Investing: Better TFSA Profit Margins

Description

Fintech startups have increased the popularity of alternative lending in Canada and are taking the stock market by storm. Specifically, now that banks must take precautions to avoid sub-prime loans and risky balance sheet positions, Canadians are having a tougher time getting approved for jumbo loans. As a result, they are seeking out non-traditional financing in the booming fintech sector.

From mortgages to personal loans, there are more options than ever for middle-income Canadians to finance significant expenses, including vacations and credit card consolidation. These are typically riskier loans that carry a higher interest rate and eye-popping profit margins. Canadian investors want to find stocks with high-profit margins to maximize the returns from their investments.

When researching the profitability of stocks, it is imperative to know the overall profit margin of the corporations' business activities. It is a reliable and straightforward way to determine whether the stock is worth your hard-earned money.

Fintech stocks report profit margins over 40%

Equitable Group Inc (TSX:EQB) is a Canadian fintech stock that provides an alternative avenue for Canadians to secure mortgages. In the past year, the stock price appreciated by over 80%, better than the market. Moreover, the stock still has room to double in value throughout 2020.

Despite the high growth in market value last year, the stock is still undervalued with a price-to-earnings (P/E) ratio of 10. A P/E ratio of 10 means that you only pay $10 for every $1 of earnings. Typically, investors consider stocks with a P/E ratio of less than 20 to be undervalued, although it depends on the industry.

Shareholders pay a premium above the current earnings-per-share (EPS) for stock because they also purchase future expected earnings discounted by the market rate of return. The premium you see on a P/E ratio is just another reminder that stock market investments are best over longer time frames.

Canadian investors can pick up shares of Equitable Group for $111.14 each. At the current price, the dividend of $0.373 amounts to an annual yield of 1.26%. The dividend is low compared to other financial stocks, but the capital gain potential over next year makes this stock a strong buy to hold through 2020.

Stock market risk in your TFSA will boost your returns in 2020

Adding healthy risk to your stock market holdings is never a bad idea, although the idea might scare you a little. I'm here to tell you to be calm and take the plunge anyway on some select stocks including this one.

Goeasy Ltd (TSX:GSY) is one of the best Canadian fintech stocks to buy in 2020. The company approves riskier personal and home loans in Canada. At just under 20%, Goeasy reports a more modest, yet still sizeable, profit margin than the Equitable Group.

In the past year, the price of Goeasy stock has surged by over 100% and could easily double in value again next year. Despite this year's price performance, the market has still undervalued this stock at a P/E ratio of 14.64. The company is still growing; investors will continue to pile into this stock in 2020.

Goeasy's quarterly dividend is $0.34 per share for an annual yield of 1.82% at the current market price of $69.28. As with the Equitable Group, the dividend may be modest, but capital gains will surely outpace the market next year. Canadians who purchase stock in Goeasy for their TFSA today will thank themselves next year when they see the strong tax-free returns they earn in their stock market portfolio.

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Date
2025/10/01
Date Created
2019/12/20
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