What Correction? Invest Here for Growth

Description

Are you following the non-stop shifting of the market? Seasoned investors will tout the "don't panic" and "don't sell" script, both of which are true. That being said, it's hard to watch a double-digit drop in portfolio value without flinching. This is especially true during a correction like the one we recently witnessed.

One often-mentioned (and wise) recommendation is to buy up on defensive investments. Utilities and telecoms, in particular, are great examples that you have probably heard a great deal about in the past few weeks.

On the other end of the spectrum are retail stocks, which investors tend to shy away from during a downturn. That is why I'm going to discuss one now – **Dollarama** (TSX:DOL).

How to navigate a downturn

Your first thought might be why should we talk about a retailer when the market is clearly in correction territory? To answer that question, let's take a moment to talk about how Dollarama differs from other retailers.

Dollarama is a dollar store. The company prides itself on selling items across fixed price points that range from $1 to $4. Following years of aggressive growth, Dollarama has branched out across the country, forming a network of over 1,200 locations.

When market conditions such as a recession or correction force consumers to be more conscientious about their spending, they will cut some things, and look for savings by shopping in cheaper stores, such as Dollarama. This is an interesting point that many investors often disregard. Adding to this appeal is that Dollarama's practice of bundling lower-cost items together creates a value statement that often leads to consumers buying more than the one or two items they entered the store for.

How is Dollarama doing?

The coronavirus and its subsequent tsunami on global supply chains are being felt everywhere. The same could be said of the quick drop in oil prices we saw this week. As a result, the loonie has already seen a steep drop this week, dropping in value from US$0.75 to US$0.72. Some pundits have even raised the prospect that a recession could be on the horizon.

This downturn has an impact on companies such as Dollarama that purchase their goods in U.S. dollars. Consider that, going forward, Dollarama can either purchase less of the same goods for the same price or purchase more goods at a lower price-point. Given the fact the market may be moving toward a contraction, the latter could bode well for Dollarama's value-seeking customers.

Interestingly, Dollarama is one of just a handful of stocks that are trading in positive territory. The stock is showing an 8% gain over the past five-day period. Over the course of the past month, Dollarama is down just 6% (and that gap is closing).

In terms of results, Dollarama isn't due to report on its fourth fiscal quarter for a few more weeks, but in the third fiscal quarter of 2020, the company reported diluted earnings of $0.44 per share. This was a solid 10% increase over the same period last year. Dollarama saw a 5.3% increase in comparable store sales in the quarter, while sales jumped 9.6% to $947.6 million compared to last year. Despite those positive results, a report reflecting this latest correction is still a quarter or two out at best.

What comes next?

Nobody can predict where the market will go tomorrow, but investors can act defensively today. The recent correction has not only demonstrated the importance of diversifying but has also exposed an opportunity to buy some remarkable investments at discounted prices.

Dollarama may not be as discounted as some of those great stocks, but the company remains a great long-term pick for any portfolio.

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dafxentiou