



## This Tech Stock Will Profit From the Bear Market

### Description

Bear markets can wreak havoc on your portfolio.

Two phenomenons occur. First, valuation multiples compress wildly. Once “pricey” stocks see their premiums vanish. Second, actual fundamentals begin to weaken, such as lower sales and profits. Applying a lower-valuation multiple to a lower sales figure results in a double blow. That’s why downturns can be so sudden and severe.

There are exceptions. Some stocks don’t see a drop in valuation. Others don’t experience falling sales or profits. In rare instances, a company can avoid both a valuation dip *and* deteriorating financials.

These stocks are [winning bets](#) as markets fall, but they can be difficult to find. There’s one Canadian firm that looks like a perfect match.

### This is magical

**Constellation Software** ([TSX:CSU](#)) has built a very specific business. You likely have never used any of its products. If I named them all right now, you’d recognize zero of them. That’s because Constellation doesn’t focus on software for the masses. Instead, it concentrates its efforts on niche-use cases, often as narrow as a single industry.

The company operates across several divisions, all of which offer specialized software for fields like biosciences, asset management, non-profits, public housing, dealerships, paper factories, and pharmaceutical manufacturing.

Look at how specialized some of those use cases are. MAJIQ, a software company that Constellation owns, optimizes the operations of paper, pulp, and non-wovens product businesses. According to the company, the software accomplishes this through “a set of industry specific order management, scheduling, trim optimization, manufacturing, quality, transportation and warehouse management software tools.”

This company is pretty boring! Its stock price, however, is anything but dull. Since 2006, shares have risen by more than 7,100%. If you're still reading, now is your chance to take advantage.

## Understand the magic

Why has Constellation stock experienced tremendous success with such a boring business? Once you dive in, everything makes sense.

All of Constellation's products serve mission-critical purposes for the customer. It doesn't matter how small the company or industry is; it *needs* Constellation to survive. In fact, going small helps limit competition. In many cases, Constellation has the market completely to itself.

You can probably start to connect the dots. Mission-critical software can't be replaced without heavy impacts to a customer's business. Because they are niche products, oftentimes, there isn't even an alternative to switch to.

In combination, this gives Constellation industry-leading contract renewal rates and sky-high profit margins year after year. When the market dips, most of its customers don't have an option of ditching the company, maintaining a steady source of income for Constellation.

The best part is that the company is an industry consolidator, meaning it acquires smaller competitors, plugging their products into its wider portfolio of offerings. As markets fall, it can add to its portfolio at bargain-bin prices. Profits stay the same, yet acquisition prices fall. It's a perfect scenario for the company.

Constellation stock remains under the radar, but its spectacular stock price performance over the last 14 years proves how valuable its business model is. During the coming bear market, the company has a chance to grow even stronger.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

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**Date**

2025/09/14

**Date Created**

2020/03/15

**Author**

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