Why This 1 Stock Is a Must-Buy for a TSX Portfolio

Description

Social distancing has taken its toll on retailers and, by extension, their share price performance. However, a few names are surviving the market turbulence. Consumers are changing their habits to reflect a new lifestyle centred on the home. But some buying habits remain predictable enough that investors can bet on them for the long term.

Aritzia (TSX:ATZ) is a top buy for the fashion-conscious investor. Beyond that, it's also a top performer in the consumer discretionary space and one of the best retail stocks on the TSX. Retail has been taking a battering of late. It's easy to see why, with all those rental overheads and with workers and customers staying home indefinitely. But Aritzia is a buy for its online presence and doorstep deliveries.

A top-performing retail stock

Investors have been investing in **Amazon** and **Shopify** for their strengths during this period of social distancing. Aritzia is just as much a buy for the same reasons. The company has made a big name for itself, becoming an integrated design and retail play for apparel exposure. This is also a name for long-term economic recovery. Indeed, a return to normal life will likely see a huge relief rally in depressed sectors.

Aritzia is also a buy for the relative safety of consumer discretionary businesses. Its currently riding high, trading at 61% above its 52-week low. Its performance has been strong during the market crash, and its share price is up 19.3% in the last month. While this is encouraging, it also means that investors may want to wait to buy the dips.

A note on valuation: With a P/E of 18 times earnings, Aritzia is overvalued for the sector. The average luxury industry stock has a P/E of 13.2. In terms of assets, Aritzia is also higher than the norm, with a P/B of five times book. This is about right for the sector but around five times the valuation of the TSX.

Now, compare these with Amazon's staggeringly high P/E of 105 times earnings and bloated P/B ratio of 19.3 times book. It's easy to tell at a glance which of these two retail stocks is the better play for value.

How to buy stocks for a recession

Nobody with long-term financial goals and a low appetite for risk should be trying to time the market right now. Betting on losses across the TSX is one thing; nobody doubts that the market could decline further. But waiting for the bottom will mean missed value opportunities on the way down. The bottom is likely impossible to see at this stage. Instead, investors should buy Aritzia shares in incremental periods of weakness.

This method of building a position slowly allows investors to take a light-footed approach to navigating strong market turbulence. A portfolio can be managed for risk and optimized for returns by building stronger yielding positions and trimming weaker ones. This technique takes the focus away from timing the bottom and waiting for a full market recovery. Instead, it makes use of whole series of events.

CATEGORY

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