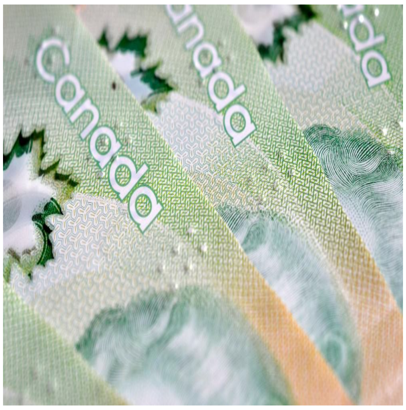

What's Your Risk Appetite?

Description

This year made investors cautious as the COVID-19 pandemic created a lot of uncertainty around the future of the economy. The **TSX Composite Index** was trading at its all-time high in mid-February. But the COIVD-19 outbreak created a panic sell-off, and the index dropped 37% to its 11-year low in March.

Many Canadians lost their jobs, and some took pay cuts, which made them cautious. In such times, investors' risk appetite has reduced.

High-risk stocks indeed generate exponential returns. However, an intelligent investor takes a calculated risk. Investors' risk appetite depends on various factors such as their financial commitments, investment objectives, financial goals, and investing attitude.

Young investors are believed to have a higher risk appetite, as they don't have many dependents or financial commitments. However, things are changing. Even young investors can have a lower risk appetite as they have education loans, rent, and credit card bills. And as they have just started their careers, their income is in the lower range.

Answer these questions to know your risk appetite

Before putting your hard-earned money in a risky stock, answer the following questions to know your risk-taking capacity.

- Do you have 10-12 years before retirement?
- Are you earning enough to meet your essential expenses and that of your dependents?
- Do you have any high-interest loans like credit card loan or personal loan?
- Do you have sufficient savings for emergencies?
- Have you been regularly saving for your other financial goals, such as buying a house?

If the answer to all the above questions is a "Yes," you have the bandwidth to invest the money left after meeting the above-listed commitments in high-risk stocks. Once you have determined how much money you can set aside for risky investments, look for fundamentally strong companies that have future growth potential.

Tech stocks are generally considered high-risk stocks because of high competition and low entry barriers. Hence, few companies succeed to take a market share. Two mid-cap companies have the potential to tap the future need for digitization and earn a good market share.

Stock Returns	Kinaxis	Enghouse Systems	TSX Composite Index
Year-to-Date	86.7%	40.9%	-11.2%
One year	132.9%	105.3%	-7.8%
Five years	621.9%	190.1%	3.5%

Enghouse Systems

Enghouse Systems (TSX:ENGH) acquires small companies that offer on and off cloud software services to four verticals — contact centres, telecom, transportation, and geographic information systems. Over the years, it has broadened its geographical presence. It now leverages its vast sales team to cross-sell products to its existing customers and acquire new customers.

Between 2015 and 2019, it increased its revenue and adjusted EBITDA at a compound average annual growth rate of 7% and 10.7%, respectively, by increasing its recurring revenue. It has a market capitalization of $3.94 billion and negligible debt as it reinvests its cash flows to acquire new companies.

Enghouse stock has increased by 40% year-to-date and 190% in five years. If you had invested $5,000 in Enghouse five years back, you would have earned $9,500 by now. Most of this growth came on December 13, 2019, as the stock jumped 20% after the company released its fourth-quarter earnings. Before December, its five-year returns were 100%.

Kinaxis

Kinaxis (TSX:KXS) provides cloud and on-premise

Kinaxis has a market capitalization of $5 billion and no debt, as it has low overhead costs. Kinaxis stock has increased 88% year-to-date and over 600% in five years.

If you had invested $5,000 in Kinaxis five years back, you would have earned $31,000 by now. Most of this growth came in November 2019 and between April and June 2020, as the stock rose 15% and 33%, respectively, after quarterly earnings.

Investors’ take away

Both Enghouse and Kinaxis are medium-sized growth companies with significant stock momentum. These two companies face competition risk from larger players that are market leaders.

However, their negligible debt makes them financially sound to handle short-term headwinds. If the two companies successfully overcome the competition, they can deliver significant returns.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:ENGH (Enghouse Systems Ltd.)
2. TSX:KXS (Kinaxis Inc.)

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1. Business Insider
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