



This Software Stock Shows How to Make 10,000% Returns

Description

Want to get rich quick? Invest in software stocks.

Of course, it's more complicated than that. But when you look at the leaders in this space, it's easy to understand the upside potential.

Just look at **Constellation Software** ([TSX:CSU](#)). Few people are aware of this company, yet shares have risen 86 times in value since 2006. A \$5,000 investment would now be worth \$430,000.

If you want to compound your money at ridiculous rates, pay close attention.

Here's what to do

If you understand what made Constellation so successful, you'll be one step closer to [replicating](#) its success.

As its name suggests, Constellation is a software company. This fact alone confers several advantages.

First, software is cheap and easy to distribute. To acquire another customer, all you need to do is send a download link. It doesn't matter if the customer is in the same town or half a world away, they can be up and running in minutes.

Compare this to an airline, which has to pay millions of dollars to buy more airplanes for expansion, not to mention wait years for the aircraft to be delivered. This is the first lesson of software investing: growth can be faster than nearly any other industry.

The second advantage is stickiness. Constellation, for example, focuses on mission-critical software. Its products enable critical processes for its customer base. This makes the software difficult to replace or eliminate. That results in high contract-renewal rates.

Of course, it's great to have customers paying you for years at a time, but this recurring revenue advantage is bigger than that.

Once a software product is created, there may be routine updates, but the creation costs are already realized. Customers may continue to pay for a product years after you paid to create it. And because distribution costs are low, cash flow levels are immense.

This is the second lesson of software investing: cash flow generation can mount [quickly](#).

My top software stocks

Constellation stock is a clear long-term winner, and I expect shares to outpace the market going forward. But with a \$40 billion market cap, its biggest days of growth are over.

Newer software stocks like **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), which went public in 2015, have also executed the playbook successfully. Those shares are up 39 times in value over the last five years.

What was Shopify's secret?

Like Constellation, it's a software pure play. That's all it does. In this case, it runs an e-commerce platform. The most exciting quality is that this platform is open to anyone to build on. Developers from around the world can develop and monetize new capabilities. That attracts more users to Shopify, which in turn attracts more developers.

This is the final less of software investing: these products often grow *faster* over time. They can be winner-takes-all markets, where the first mover gets a lion's share of the rewards.

Unfortunately, Shopify stock is now valued well above \$100 billion. Like Constellation, its best days of growth are likely over. The key now is to find the *next* Shopify.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/08/25

Date Created

2020/12/05

Author

rvanzo

default watermark

default watermark