



TFSA Top Pick: \$6,000 Invested in Q1 Is Worth More Than \$50,000 Today

Description

Few stocks on the TSX have rebounded as impressively as **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)).

This stock has turned a \$6,000 TFSA investment at [pandemic lows](#) in March into more than \$50,000 today. This absolutely impressive return is possible for investors with the intestinal fortitude to buy beaten-up technology stocks when things look dire.

Lightspeed has turned out to be one of the best Canadian stocks over this period of time. Here's why.

Business model core to this stock's success

Lightspeed's business model is one which has become highly sought after by growth investors. Lightspeed earns its revenue via subscriptions from largely locked-in clientele in the retail space. Concerns about how the coronavirus pandemic would affect retailers has been short-lived, considering how robust Lightspeed's revenue growth has been through the pandemic.

This software-as-a-business (SAAS) model is similar in a way to fellow Canadian tech giant **Shopify**. When clients are grounded in a particular POS software or, in the case of Shopify, a full-service online store platform, churn rates turn out to be very low.

Given the relatively low cost of Lightspeed's platform and the essential nature of this software, retailers pay this bill first. Bankruptcy rates have not materially impacted the company's growth trajectory. On the contrary, companies are scrambling to find an edge to improve profitability by any means necessary. Lightspeed's platform helps retailers do so.

Valuation still a big concern

This stock price increase hasn't come without its own set of concerns about Lightspeed's valuation today. The company is now trading at around 69 times sales at the time of writing. Shopify is at 78

times sales, so in these crazy times, some investors could say this stock is cheap.

All things considered, these software growth plays are trading in a similar way to such stocks near the dot-com bubble peak. Investors ought to take caution with such investments and ensure that owning a well-diversified portfolio, including a defensive core, is a part of their long-term investment strategy.

That said, TFSA investments should be rooted in growth stocks, given the value the TFSA provides in limiting capital gains taxes. Lightspeed has turned out to be a real winner. In this stock market, letting the winners run has proven to be the way to go. Accordingly, investors ought to consider picking up shares of Lightspeed or Shopify should these stocks experience dips. Focusing on U.S. technology names as well is a great strategy, given the outperformance U.S. technology stocks have shown.

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