2 Stocks to Consider for Their Unusual Growth Patterns

Description

Investment is a long-term game. If you want to grow your wealth slowly but surely, you have to give it time, and you need to stick with good businesses, preferably for decades, to benefit from the long-term growth they can offer. While it's a good strategy for long-term wealth goals like retirement and children's education, it might not translate well for your short-term financial goals.

These goals may include saving up for a down payment, getting a new car, or an expensive vacation in the next three or five years. For financial goals like these, you might have to change the mix of risk, predictability, and growth potential in at least part of your investment portfolio. And if you want access to a relatively larger pool of potential investments, you might have to go beyond the stocks with linear growth patterns.

An oil-exploration company

Gear Energy (TSX:GXE) is a Calgary-based oil exploration and production company with a market capitalization of $180 million. It's tiny compared to the giants in the company, and its current share price of $0.73 is a far cry from its glory days (July 2014 valuation). It has a stable balance sheet, and the stock is currently almost fairly valued.

Its income statement is a messy pattern of profits and losses, and the stock seems to track that. In the last five years, the share price had been through many crests and troughs, and in three instances, it could have easily doubled its investors' money (if they bought and sold it at the right times). The stock grew about 200% in the last 12 months, but it has started to come down from its recent peak.

If the stock falls in double digits and its income sustains or grows, it will most likely become quite attractively undervalued. If you can buy it when it hits rock bottom or just as it starts to recover from the slump (a profitable next quarter might trigger that), you might be able to leverage its cyclical growth and realized decent capital gains in a year or so.

A retail chain company

Dollarama (TSX:DOL) has gone through two cycles of growth and falls in the last five years. The stock has come down over 7% in the last 15 days, which is the sharpest fall of the year yet and might indicate the start of the third major slump in the last few years. While the price-to-earnings of the company makes it barely overvalued, the price-to-book ratio is abnormally high, but the balance sheet is stable enough.

This Montreal-based value retailer chain has over 1,000 locations across the country and an international focus as well (especially in Latin America). The company has the potential to serve as both a long-term growth stock if you are willing to hold it for a decade or more and relatively short-term growth potential if you buy it at the bottom of the slump (that has probably just started) and sell it at or near the next peak.

Foolish takeaway

Stocks like these are an important component of relatively complex investment strategies and portfolios. You want to draw out as much profit in as little time as possible, but you still want to hold on to it for long enough for long-term capital gains to kick in (if you are holding it on a non-registered account). But if used wisely, they can be game-changing in expediting the growth rate of your overall portfolio.

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