Canadian Growth Stocks to Buy Before They Bounce Back

Description

You wouldn't know it by looking at the **TSX Index**, which has smoothly ascended for just over a year, but there has been a vicious rotation out of some of the more speculative growth names. Inflation is coming, and if it becomes problematic enough to cause central banks to pivot, Canadian growth stocks could drag the markets much lower.

It's a weird situation for many beginner investors. Nearly nothing has changed with many of the high-flying Canadian companies that saw their shares plunge 30% over the past few weeks. Many such firms are coming off blowout earnings beats. So, a strong argument could be made that many of the recently soured top growers are actually *better* companies than they were before growth stocks nosedived for reasons outside their control.

Canadian growth stocks stuck in limbo

As ARK Invest's Cathie Wood put it in response to the recent turmoil suffered by growth stocks, "all that changed is the price." It seems simple enough. Still, whether or not the growth selloff is warranted ultimately depends on where rates will be headed next. The Fed sees the recent bout of inflation as transitory.

While the recent inflation numbers (well north of 3% in Canada and the states) are on the higher end, it's still far too soon to conclude that the Fed has lost its credibility. Odds are, they'll be right on the money.

The magnitude of inflation may be higher than expected, but the timeframe remains too concise for investors or the Fed to hit the panic button by bracing for higher rates.

Inflation surge: Dire warning for growth investors? Or the best buying opportunity of 2021?

In one corner, you've got the Fed and Cathie Wood, who remain calm and cool, despite the higher-than-expected consumer prices. And on the other, you've got a jittery and inefficient Mr. Market who will always be worried about something. When it comes to the latest correction, I'd have to part with Wood and the Fed. While you could get hurt by buying quickly plunging tech stocks on the dip, I think there's more money to be made by putting on your contrarian hat.

Even if contrarians are proven wrong over the near term (let's say growth stocks nosedive after the Fed's next minutes are released), those with enough dry powder and time horizon, I believe, will be able to hang in long enough to be proven right.

Unprofitable hyper-growth stocks are where you'll want to be if you're looking to punch your ticket to the biggest bounce. **Score Media and Gaming** (TSX:SCR)(NASDAQ:SCR) strikes me as one of the battered names that could soar into year's end. Shares of the digital media and gaming firm soared over 14% during Wednesday's trading session. This pop came just weeks before a 70% meltdown in the stock. The perfect combination of headwinds hit the name. After nearly cutting cut in half twice, I think contrarians have to draw the line somewhere.

Foolish takeaway

Score stock remains expensive on a price-to-sales basis. But in terms of growth, it's tough to match the name, with its front-row seat that it has to the multi-billion-dollar Canadian sports betting market. The company's "theScore Bet" offering enjoyed nearly 500% in year-over-year growth as of the second quarter.

According to those familiar with the matter, Bill C-218, the bill that legalizes single-game sports betting, has a "better than 50-50 chance" of passing. Regardless of when it passes, I think Score will eventually find itself on a breakaway. But by then, the price of admission is likely to have gone way up! Place your bets.

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