Eliminate Debt With Robust Growth Stocks

Description

Canadian households have $1.72 in debt for every dollar of household disposable income. That's one of the highest ratios in the developed world. A recent poll conducted by Ipsos on behalf of debt consultancy MNP concluded that roughly 30% of Canadians were insolvent earlier this year.

As the economy drags itself out of the pandemic and government stimulus measures are scaled back, it could be the perfect time to tackle this debt burden head on. Here's how robust growth stocks can help you meet your interest payments and reduce debt over time.

Debt mitigation

There are two ways to mitigate your debt burden: lower the total interest expense or lower the ratio of debt to equity. In other words, you need to refinance your debt to increase the amount borrowed from low-cost sources such as mortgages and lower the amount from high-cost sources (credit cards, etc.).

Once you've done that, you can lower your personal debt-to-equity ratio by investing in steady growth stocks that outpace your debt burden. For instance, if your total interest rate on personal debt is 10%, you need a stock that can reliably grow faster than that over time.

Stocks like **Constellation Software** (TSX:CSU) and **Dollarama** (TSX:DOL) are excellent examples.

Constellation Software stock

Over the past decade, Constellation Software has delivered a total return of just over 2,900%. That's a compound annual growth rate (CAGR) of 40%. In other words, Constellation's growth rate outpaced the cost of nearly every form of debt.

While other tech stocks may have grown faster, Constellation stock is far less volatile and much more reliable. The company acquires and integrates niche software firms to expand. The team focuses on competitive software tools with high margins and recurring income streams. The majority of their software clients are government agencies, which makes these cash flows much more reliable.

Last year, the team announced it would be seeking out larger deals beyond the software niche. That means there's a lot more room for growth ahead.

Dollarama stock

Dollarama is yet another robust growth stock that should be on your radar. The stock is up 1,022% over the past decade. That's a CAGR of 26.2%.

Dollarama's growth hasn't been as impressive as Constellation Software, however the stock is undervalued and the growth rate can outpace the cost of debt. Dollarama's biggest cost is the rent it pays for commercial space. These rental agreements are locked in for five to 10 years, which provides stability.

Meanwhile, the business model is recession- and pandemic-proof. Dollarama is considered an essential business, which is why stores remained open throughout the past year. The stock quickly recovered after a brief dip in early 2020. Meanwhile, discount retailers like Dollarama tend to outperform other retailers during recessions.

This robust growth stock could deliver double-digit CAGR for the foreseeable future and deserves a spot on your watch list.

Bottom line

Debt is a concern for millions of ordinary Canadians. If you're looking to lower your debt burden, you may want to refinance to lower the interest costs and invest in robust growth stocks to expand equity over time.

Good luck!

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2. TSX:DOL (Dollarama Inc.)

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Author
vraisinghani