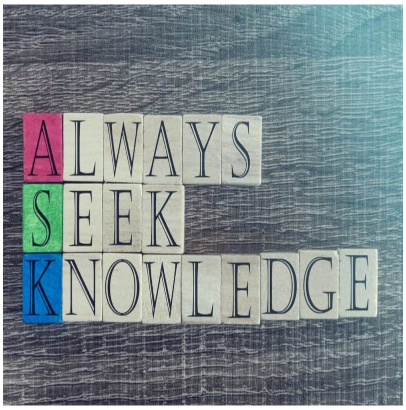

1 Simple Trick to Finding Stable Canadian Stocks to Buy

Description

Motley Fool investors constantly search for new Canadian stocks to buy. But it can be hard to know exactly what to look for. It'd be nice if there was an easy method to identify stocks as stable investments for the future.

Well, guess what: there is!

One easy method

The key is to find companies that have been growing through acquisitions. While this method isn't a catch-all for every stock, if you're looking at several strong companies and identify this tactic, then it's likely a strong long-term hold.

Again, this doesn't apply to every company. For example, those in the energy sector may buy up smaller energy companies. *However*, they also need to keep revenue for research and development, innovations, and buying products. The same goes for most tech companies and cannabis companies; in fact, many industries don't fall into this category.

Instead, what Motley Fool investors need to identify are Canadian stocks to buy that start with strong revenue, acquire businesses in their sector, create more revenue, and acquire more. What sectors are we talking about here?

The sectors to watch

There are several sectors that fall into this category among Canadian stocks to buy, but I'll go over some obvious ones. The most obvious are utility companies. These companies simply buy existing utility companies, collect their revenue, and expand further. It also means these companies tend to dish out dividends.

Another sector is Software as a Service (SaaS) companies. Yes, these do fall under the tech sector.

However, the tech sector is wide and varied. There are certain tech companies that will narrow their focus on a certain type of software. Then they will identify companies within that sector to buy. They use their funds to buy and bolster the company, create more revenue, and buy further SaaS companies in the future.

Then there are real estate investment trusts (REITs) among Canadian stocks to buy. These, on the whole, provide fairly solid and stable income but, again, only in certain sectors. I'm sure Motley Fool investors are aware of the housing crisis over the last few years. So, making sure you're choosing an REIT in a reliable sector is important to bring in stable income, as the REIT buys properties.

Three starter stocks

If you're looking for reliable income in these sectors, there are three I would try today. In the utility sector, I would go with **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN). The company has been growing through acquisitions for years and is in both the utility and renewable energy sector. You can pick up a dividend yield of 4.35% as of writing, and it has a compound annual growth rate (CAGR) of 18.55% over the last decade! Revenue just came in at an increase of 54% year over year, with adjusted EBITDA rising 39%. Yet the company is a steal trading at a P/E ratio of 10.77.

In the SaaS arena, I would go straight to the top with **Constellation Software** (TSX:CSU). Yes, it's pricey, but it got there through the stable method of acquisitions. Practically all the company does is make acquisitions, and it works! Shares have increased at a CAGR of an incredible 43.55% in the last decade! And you get a dividend yield of 0.24% ($5.02 per share), which you won't find with other tech companies.

Finally, Motley Fool investors can use this method to identify Canadian stocks to buy based on acquisition strategies. In the REIT sector, I would suggest **NorthWest Healthcare Property Units** (TSX:NWH.UN). The healthcare company came through the pandemic not just unscathed but with solid cash and stable lease agreements. On average, they now last 14.3 years! And it recently purchased properties in the Netherlands and acquired an Australian healthcare REIT. Shares are up 20% this year, with an 11.5% CAGR over the last five years. Plus, you get an incredible dividend yield of 6.2%. Yet it remains super cheap with a P/E ratio of 9.18!

Foolish takeaway

While companies that make acquisitions aren't all great, these three are Canadian stocks to buy based on this method. The one downside is you're unlikely to see major swings in share prices (except for a market crash, of course). But the benefit is, you can look forward to stable income pretty much forever.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)

3. TSX:CSU (Constellation Software Inc.)
4. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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alegatewolfe