Got $500? 2 Under-$10 Stocks to Buy in October

Description

If you thought it takes thousands of dollars to invest in the stock market, then this article is for you. The stock market offers shares of all types, those that cost over $2,000 and those that cost $2 per share. Does it mean the higher-priced stock is better than the lower-priced stock? Well, yes and No. The risk factor is high, especially in penny stocks that cost less than $5, but if they are in an upturn, they give good rewards.

Stocks under $10 versus stocks over $1,000

But both the stocks can grow your money several folds. For instance, **Shopify** stock is trading close to $1,850. It breached the $1,000 price last year itself and this year surged 32%. Similarly, **Constellation Software** stock surged 36% year to date. The large market capitalization of these stocks reduces their ability to surge to unprecedented levels.

At the same time, penny stocks like **Bombardier** (TSX:BBD.B) and **Hive Blockchain Technologies** (TSXV:HIVE)(NASDAQ:HVBT) surged 340% and 85% year to date. In this article, I will discuss the reason for each stock's surge later. But here, I want to highlight the difference in surge and what it means to you.

If you invested $2,500 in Shopify or Constellation at the start of the year, you would now have around $3,300. But if you invested $2,500 in Bombardier, you would now have over $11,000. If you invested in Hive, you would have around $4,625. Now, these returns from penny stocks might look juicy, but they come with risk.

The risk involved in stocks under $10

If you look at the historical performance of the above two penny stocks, their long-term growth has been tepid. They have been falling for a long time. Bombardier stock lost 85% between October 2016 and October 2020 as the company's losses only widened. The fundamentals didn't support growth. Hive stock was flat between October 2016 and December 2019 as the cryptocurrency bubble burst in

2016.

Whereas the two $1,000+ stocks have grown in the long term; Shopify's and Constellation's five-year growth is above 3,128% and 270%, respectively.

The risk with penny stocks is that if you buy them at a higher price, you are stuck with multiple years of losses until the next growth spurt, which is rare. The question that's boggling you is whether it is the right time to buy Bombardier and Hive as the recent rally has pushed them to their high price territory. For that, we need to look at each stock separately.

Bombardier

Bombardier is an airplane and train manufacturer, which has been reduced to just business jet maker, its only profitable segment. In 2013, Bombardier faced a costly product failure, which piled up a huge debt it is still trying to repay. This year, it sold its train-making arm to Alstom. The proceeds from the sale bought Bombardier some time to invest in the business instead of channelizing all its money to repay debt.

While many thought this divestment was negative, it helped the company streamline operations and grow its stock. After falling 85% over the year, even a ray of hope for profits and revival brings out the growth cycle. Valuing such stocks based on ratios like price-to-sales/earnings might not give the right picture.

The company will release its third-quarter earnings on October 28, and I expect the company's earnings to exceed analyst expectations. If this happens, the stock could grow 7-10%. Hence, this is a good time to buy the stock before it reacts to the upcoming earnings.

Hive

Hive is a blockchain technology company that primarily deals with Bitcoin and Ethereum mining. Hive is highly volatile because its assets (BTC, ETH it has mined) are volatile. Many regulators still oppose crypto but are also considering the use of crypto and the technology behind it. If you believe in BTC, Hive is your Polar Express train.

Until Hive finds an alternative application for blockchain technology, its share price will be influenced by BTC prices. You can take advantage of this volatility and buy the stock at the dip.

A fool's play

Investing in penny stocks comes with a great deal of risk. If you decide to take this risk, make sure you only invest a small fragment of your portfolio, around 5%, in such shares. Invest a greater chunk in fundamental-backed growth and dividend shares with a visible long-term growth horizon.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)
2. TSXV:HIVE (Hive Blockchain Technologies)

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