The 2 Best Growth Stocks to Buy Today for Medium-Risk Investors

Description

Many investors misunderstand risk. This misunderstanding keeps them from investing in some of the best growth stocks. By the dictionary definition, risk is the "possibility of something bad happening" or the "degree of probability of loss." In stock market investing, the worst that can happen is that your investment goes to $0. The probability that your share will go to $0 in a day is less, especially for mid- and large-cap stocks.

Growth stocks with strong fundamentals

A high-growth stock like **Lightspeed Commerce**, which once surged triple digits, has lost 70% value since September 2021 after Spruce Point Capital's negative report. But this dip came in phases, with the first one being 20%. You can mitigate this risk by shorting the stock. When you short a stock, you benefit from a decline in stock price. If options are not your thing, you can cash out from the declining stock and invest in other growth stocks with lower risk.

Lightspeed is an exception. But investors come to know when a company is not performing through signs like multi-year losses, piling debt, and high valuations with a bleak outlook. **Facedrive** and **Transat** are some examples. But some growth stocks have good fundamentals and can deliver strong returns if you take a moderate risk of maybe 10-30% downside. My analysis points to two growth stocks that the market has undervalued due to fear of downside:

- **Dye & Durham** (TSX:DND)
- **Enghouse Systems** (TSX:ENGH)

But if you cut the noise and look at the two companies purely as businesses and not stocks, you'll see growth and a good implementation of tapping growth potential.

Dye & Durham stock

Dye & Durham is a cloud-based software and technology solution provider that helps legal and business professionals improve their efficiency. Being a cloud-based firm, it has lower debt that removes the risk of leverage. The company has a customer base of law firms, financial service institutions, and government organizations. Its top 100 accounts have an average contract term of 16.6 years. The stickiness of its services reduces the risk of losses and makes its cash flows predictable.

The nature of its business enabled Dye & Durham to earn a 55% adjusted EBITDA margin in the first quarter of fiscal 2022. The company has adopted a growth-through-acquisition strategy instead of organic growth. These acquisitions grew its first-quarter revenue and adjusted EBITDA 414% and 398%, respectively. This shows the company is in a high-growth phase.

But the stock has fallen over 9% since December 2021, as the tech sector goes through a bear phase. Moreover, Spruce Point Capital's crackdown on tech initial public offerings seems to have made investors conservative. If you are willing to take a little risk, Dye & Durham has a bright outlook, as it acquires more companies and gains market share.

Enghouse Systems

Another tech service stock going through a bear phase is Enghouse Systems. Like Dye & Durham, Enghouse grows through acquisitions. But it operates in different verticals, like interactive management, network infrastructure transportation, and public safety. The company saw unprecedented growth during the peak of the pandemic, as its video conferencing solutions saw a spike in demand amid the work-from-home culture.

Enghouse stock surged over 97% between April and July 2020. But this spike was short-lived as people moved to cloud solutions. Enghouse growth normalized and its fiscal 2021 revenue and earnings per share (EPS) fell 7.3% and 6.2%, respectively. The stock's valuation rose to such high levels during the pandemic that the stock price saw a steep correction of 42% from mid-July onwards. A 42% dip has put the stock to the 2019 levels. Any growth from here will be from the normal course of acquisitions and organic growth.

However, there could be a 10-20% downside in the short term before the stock returns to growth. Investors could most likely to respond to any positive growth momentum in revenue and earnings in 2022.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:DND (Dye & Durham Limited)
2. TSX:ENGH (Enghouse Systems Ltd.)

PARTNER-FEEDS

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2. Koyfin
3. Msn
4. Newscred
5. Quote Media
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