2 Canadian Stocks for TFSA Investors to Watch in January 2022

Description

TFSA investors who've yet to put their 2021 contribution of $6,000 to work over the rampant volatility in the broader stock markets may wish to start having a closer look at the many names that have flopped in recent weeks. Indeed, the much-anticipated market correction may very well be up ahead after over a year of not having much more than a 5-6% pullback in the S&P 500. There's a lot of uncertainty with regards to the Fed, COVID, inflation, and economic growth once the taping and tightening runs its course.

Could the market hold up, as rates rise by four times this year?

It's definitely possible, and don't let anyone tell you that you can't make money in such a rising-rate environment. By playing it strategically, with a diversified portfolio of high-quality stocks priced at below your estimate of its true worth, there are no reasons why you can't add on the strength of 2021 and 2020.

You don't need to reach for the battered growth stocks at ground zero of the selloff either. TFSA investors should add some tech to their portfolio, but in this market, there's a fine line between tech stocks that are most vulnerable and tech stocks that can hold their own. Indeed, it all comes down to profitability and prospects.

Companies that are unprofitable, with zero plans to make a move into the green will continue feeling the pain as the tech sector rolls over. Indeed, investors uncomfortable with 10-40% downside should only invest what they're willing to part with.

Next up are companies with little or no profits but plans to improve operating margins and profitability prospects in the near future. The key is near future. Think a name like **Shopify** (TSX:SHOP)(NYSE:SHOP), which took a bit of a hit this year, down nearly 15% year to date. Such names will feel immense pain but may be likelier to bounce back when the time comes. TFSA Investors must ensure comfort with extreme downside risks with such names.

Finally, you've got profitable companies that are expected to grow earnings at a decent pace moving forward. These names, like **Alimentation Couche-Tard** (TSX:ATD) are growing their earnings at a solid rate, with a valuation that's still on the lower end of the historical range. Such a name is well positioned to move higher, even as rates rise, wiping out unprofitable growers out there.

Three classes of growth stocks: Which to watch or buy?

Indeed, this is a market that will reward investors focused on minimizing downside risks. And to do so, TFSA investors should consider the three classes of growers and only be a buyer if they see a relative margin of safety. I have no idea when tech will bottom. For that reason, I prefer profitable growth companies at attractive valuations at this juncture. However, I'm not against sprinkling some money in the battered plays like Shopify with so much damage now in the rear-view mirror.

Moving ahead, the valuation looks like it's making a return. And investors should think twice before backing up the truck on the fastest-falling knives in the tech sector unless they have a strong stomach for immense volatility and a time horizon in excess of five years. For most conservative TFSA investors, betting on falling knives may be too hard a strategy to follow through on. That said, if you can value a battered growth stock and you have conviction in the name, don't be afraid to deploy some capital if you understand what the stakes are in 2022.

Bottom line

Shopify is a risky proposition with immense upside. Couche-Tard is a Steady Eddie grower with a solid long-term growth plan and the ability to move through rate-induced volatility facing the tech sector. Personally, I'd nibble on the former while taking a bigger bite of the latter, given my personal risk tolerance.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:ATD (Alimentation Couche-Tard Inc.)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

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