
2 TSX Stocks Under $5 for High-Risk Investors

### Description

The stock market has something for everyone. There are shares trading at $2,000 and shares trading at $2. What is the difference? Stocks that trade below $5 are sometimes called penny stocks, and they carry high risk. These don't trade as widely as other stocks, as there are not many buyers and sellers for them. In this article, I will address why stocks under $5 are risky and how you should trade in them.



## Risks of investing in under-$5 stocks

These stocks trade at a low price for a reason. They are companies that don't have a glorious past. Most of them have gone through a major event that has put their business in a fix. As a value investor, you may call them low-hanging fruit. But if these stocks show a turnaround, which is difficult to forecast, there is significant upside. But this upside won't exactly be a "rags-to-riches" situation.

Despite so much uncertainty, people invest in these stocks because of their cheap prices. Look at it like a dollar store, where you can get cheap, decorative lights. They may either burn out the day after you purchase them or light your festivals for years to come.

If you invest in such stocks, do not invest more than 1% of your portfolio. Or invest only the amount you are willing to lose.

## Two stocks under $5 you could buy

- **Bombardier** (TSX:BBD.B)
- **Transat A.T.** (TSX:TRZ)

## Bombardier

Bombardier is the famous plane maker that has been slipping since one of its airplanes failed. The product failure pushed the plane maker to years of losses. After millions in the bailout and downsizing all its business segments, the company has become a pure-play business jet maker. That is a niche market, which *Fortune Business Insights* expects to grow at a compounded annual rate of 5.22% in the 2021-2028 period.

So far, sales of business jets have been good. For the full-year 2021, Bombardier saw a 14% increase in the order backlog to $12.2 billion and a net profit of $5.07 billion. This shows its multi-year-loss jinx is over. That's what caught investors' attention, and the stock surged 250%. But this growth came after a 95% dip in 16 months. The company has to prove that it can sustain profitability and successfully deleverage its balance sheet without plunging into losses.

I recommend buying the stock, as it costs less than $1.7/share and shows hope of recovery. The business jet demand could recover, as the international borders have reopened. Rising oil prices and inflation are factors that affect passenger airlines and not business jet customers. However, there is a risk that Bombardier gets aggressive with expansion and slips into losses.

## Transat A.T.

International holiday company Transat A.T. is another stock that carries high risk. **Air Canada** was supposed to acquire the company for $18/share, but the pandemic changed everything. Lockdown spelled doom for leisure travel and near bankruptcy for Transat. The stock fell below $4. The government bailout saved the company when Air Canada backed out due to delays in regulatory approval.



Now, Transat is on the road to recovery. Vaccination has accelerated, and leisure travellers are desperate to go on a vacation. Although the stock carries a high risk of another pandemic wave, sky-high oil prices, and piling debt, it has an opportunity to benefit from the pent-up travel demand.

## Why buy under-$5 stocks?

If you want high returns, you have to take high risks. But if you don't have the risk appetite, you can start with these kinds of stocks, as they cost less and won't hurt if the stock falls. But if your hunch is right, your money could double or triple. In dollar terms, $100 invested in these stocks could go to $0 or convert to $200-$300. Transat and Bombardier seem like stocks with the potential to turn your $100 into $200 or $50.

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