2 Insanely Cheap Stocks to Buy in a Market Correction

Description

The TSX Composite Index fell, as the U.S. Federal Reserve hiked interest rate. Why are investors so worried about the rising interest rates? Is this market correction an opportunity for long-term investors to buy growth stocks at a lower price?

What is causing market correction?

The stock market rose during the pandemic as investors got liquidity from the near-zero interest rates and stimulus packages. The Fed and the Canadian central bank are now pulling out all the excess money from the economy by increasing interest rates and reducing bond buying.

The drying liquidity and slowing economy reflect in stock prices. While the Canadian stock market has been in correction zone, tech stocks witnessed a downturn. The tech-heavy Nasdaq fell more than 30% year to date. The dilemma is, even with a 30% dip, it is difficult to call it a crash. The stocks are correcting from the tech bubble that was inflated with stimulus money. When people had access to free money, they bought tech stocks at a high price. When the free money access stopped, they sold those tech stocks at lower prices.

In this equation comes inflation. Inflation is increasing because of the pent-up demand from the pandemic and the supply chain shock from the Russia-Ukraine war. This has created an imbalance in the demand and supply of goods imported from Russia, like oil and natural gas. Therefore, increasing interest rates is doing little to ease energy prices.

Two insanely cheap stocks to buy the dip

As energy prices continue to rise, people will have less money to invest, as all their income will go towards coping with inflation. If you still have money to invest, here are two growth stocks that people are selling to keep up with inflation.

- **Constellation Software** (TSX:CSU)

- **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX)

Descartes and Constellation have lost their one-year returns and are back to June 2021 levels. The question is whether the June 2021 level is also an inflated price. Let's find out.

Constellation Software stock

Constellation Software is a growth-through-acquisitions story. Its business secret is its investment strategy to identify small- and mid-cap software firms that can bring in regular long-term cash flow. It is not just how Constellation finds the right company but also how the management finances the acquisitions and plans capital structure and integration.

The tech market is slowing, creating an opportunity for Constellation to make aggressive acquisitions at attractive valuations. This could slow down the company's revenue and earnings-growth rate in the short term. But a market recovery could see a bounce back in Constellation's earnings.

On the technical charts, Constellation's 50-day moving average has dipped below the 200-day moving average, and this gap has been widening since May. The stock showed such a trend in the fourth quarter of 2018 when it missed its earnings estimate. At that time, the management stopped holding earnings conference calls, raising questions about the company's transparency.

In the fourth quarter of 2018, the United States went into a trade war with China, which pulled down Nasdaq by 20%. But Constellation bounced 34% in less than three months, as the trade war eased. The current trend is more aggressive than last time, as the tech bubble bursts and fears of a recession are slowing investments. An even bigger bounce is possible this time, but it would take at least three years, as stagflation could lead to recession and delayed recovery.

Descartes Systems

My next pick is Descartes, as the global supply chain shock has hit all supply chain-related stocks. But investors are ignoring its robust balance sheet and asset-light model that can help it sustain another crisis. Descartes has no major fixed costs. It even provides global supply chain solutions like customs compliance and global trade intelligence. The sanctions have reduced trade volumes but have created opportunities for new trade routes.

The 2018 trade war disrupted the tech supply chain, pulling Descartes stock down 21%. But the bounce back sent the stock up 51%. The Russia-Ukraine war has disrupted energy, airlines, commodities and many more supply chains. Descartes stock could see more downside, but the bounce back would compensate for the wait, as there would be pent-up demand.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)

2. TSX:CSU (Constellation Software Inc.)
3. TSX:DSG (The Descartes Systems Group Inc)

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