The 2 Best TSX Growth Stocks to Buy Before the Rally

Description

Have tech stocks bottomed out? The tech stock sell-off began on December 30, 2021, as hedge funds offloaded massive amounts of their tech holdings over fears of interest rate hikes. The **Nasdaq Composite Index** crashed (down 32%) in the first half. All bubbles burst when hedge funds sell because of the massive size of their holdings.

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After falling 32% between April 5 and June 15, the Nasdaq Composite Index rallied 10% in a month. Have tech stocks bottomed out? Or is this rally temporary? The second half is seasonally strong for many consumer-facing tech stocks. But the recession has diluted this seasonality. One sector finding opportunity in the recession is business software solutions as companies free up IT budgets for digital transformation.

Some of these tech stocks are showing buying activity even after the Bank of Canada hiked interest rate by 100 basis points.

Two growth stocks to buy ahead of the stock market rally

Two stocks that got stuck in the April-June sell-off while their fundamentals remained intact are:

- **Constellation Software** (TSX:CSU)
- **Open Text** (TSX:OTEX)(NASDAQ:OTEX)

Constellation stock

This growth-through-acquisition story has fallen prey to the sell-off. But the industry-wide decline has created an opportunity for Constellation to buy some good companies at a cheap value. While all acquisitions may not be successful, a lower acquisition cost could mitigate the losses and enhance profits.

Constellation acquires mission-critical software companies that earn stable cash flows. More acquisitions in this downturn could bring more cash flows to Constellation. Moreover, a recession could enhance corporate investment in software that improves business efficiency. While historical performance does not guarantee future returns, the management's experience in closing deals profitably builds investor confidence.

Constellation stock fell 23% in the sell-off and has rallied 7.7% in a month. It is in a long-term uptrend and that is visible from its past downturns. The bottom of every downturn was higher than the previous downturn. For instance, the stock bottomed at $824 per share in the 2018 United States-China trade war. Its next bottom was $1,200 during the pandemic. This uptrend shows that the company made the most of the dip to increase its size through acquisitions. Now could be the time to buy the stock while it trades closer to its bottom.

Open Text stock

Unlike Constellation, Open Text has been a range-bound stock in the last four years. The company provides information management software to enterprises and enjoys stable revenue. It grows its business organically through cross-selling and is not aggressive in terms of acquisitions. The company completed its last acquisition of Zix in December 2021.

Open Text's information management solutions are sticky and generate regular stable cash flows. Most of its customers make annual payments, so its cash flows might vary across quarters. Hence the right way to analyse OpenText is to look at full-year earnings. The company expects macro factors like the Russia-Ukraine war, China lockdowns, and interest rate hikes to marginally impact its foreign exchange revenue and EBITDA. But its fiscal 2024 outlook of 2-4% organic revenue growth remains intact.

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Open Text stock dipped 35% in the tech stock sell-off. It bottomed at $46.27 on May 12, which is closer to its pandemic bottom of $44.83, and the 2018 bottom of $42.8. This stock is range-bound, trading between $45 and $62. It did breach the range for a brief period, but most trades were within the range. OpenText has begun its rally, surging 12% to over $51. The stock could surge another 18-20% during the recovery phase. This could be the right time to buy the stock at $51.5 and sell it at $61 if the opportunity arises.

Investor takeaway

The tech stock rally in the last 30 days proves that timing the market is impossible. You can never know the bottom until the market has hit it. But you always know whether there is a downturn or a rally. A smart way to buy the dip is to invest smaller amounts every month throughout the downturn and early in the rally before the stock jumps double-digits.

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2. Tech Stocks

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3. TSX:OTEX (Open Text Corporation)

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