



3 Growth Stocks That Could Propel Your Wealth

Description

Investors invest in growth stocks for price appreciation. What drives that price appreciation is high growth in earnings.

In non-registered accounts, booked capital gains are favourably taxed at half of your marginal tax rate. For example, if you live in Ontario and are in the highest tax bracket, your work income is taxed at 53.53% this year, but your realized capital gains from price appreciation will only be taxed at 26.76%.

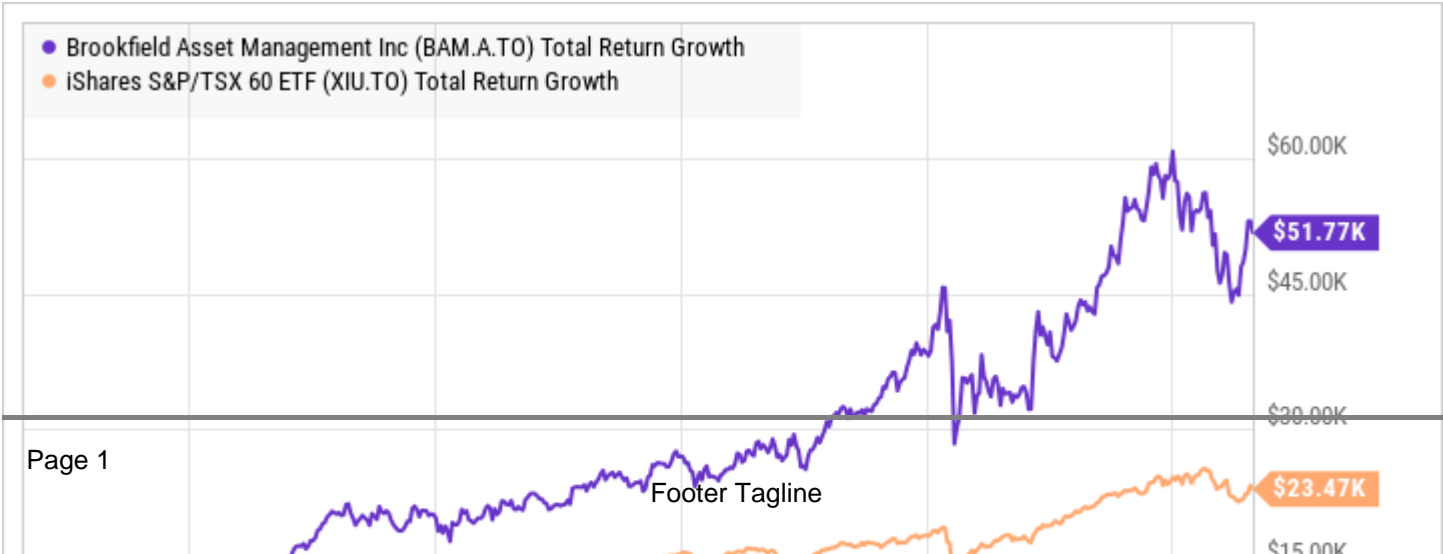
So, growth stocks can propel your wealth, because they're tax deferred until you sell. And when you do sell at a profit, they're taxed at a lower income tax rate.

Here are a few kinds of growth stocks you may be interested in.

Large-cap stock

Some [large-cap stocks](#) are growing at an above-average pace. For example, **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)) has outperformed the Canadian stock market, using **iShares S&P/TSX 60 ETF** as a proxy, in the last three, five, and 10 years.

The graph below illustrates the difference in wealth creation of a \$10,000 initial investment over a decade. In the period, BAM stock created about \$28,300 more in wealth. BAM's 10-year return equated to about 17% per year versus the market's 9%.



BAM.A Total Return Level data by YCharts

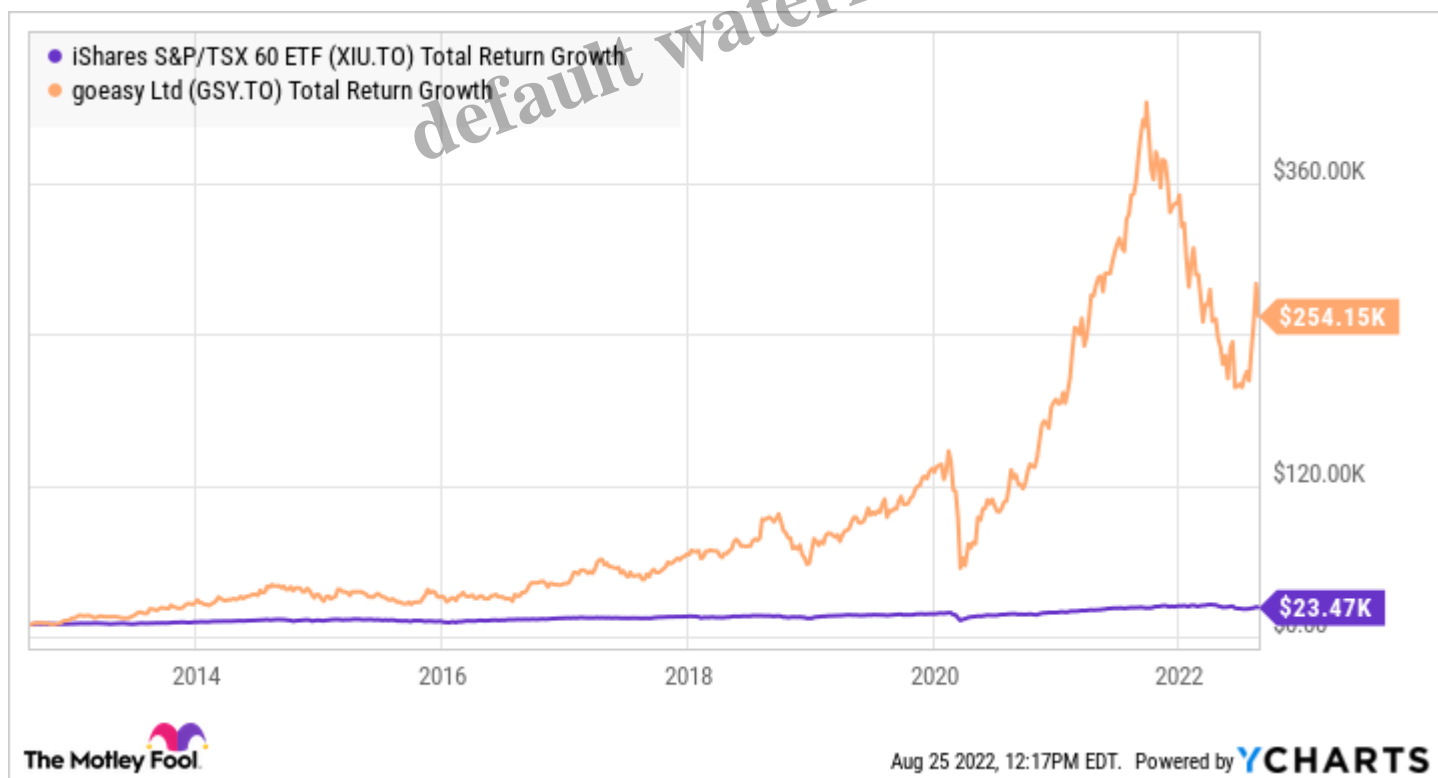
Going forward, the global alternative asset manager has plans for long-term growth. One big change that's expected to complete by the end of the year is that it'll be splitting the company between its proprietary assets and the asset management business. This should bring more simplicity and greater flexibility for management to create long-term shareholder value.

BAM's cash flow multiple has actually contracted about 40% in the past decade. So, it could be substantially undervalued. Analysts think it's discounted by about 19-26%. Ultimately, it means there's a high probability, it can deliver annualized returns of at least 12% over the next decade.

Smaller-cap stocks

BAM's [market cap](#) is about \$103 billion. Smaller-cap stocks that maintain sustainably growing profits can generate even greater wealth for investors. For example, **goeasy's** ([TSX:GSY](#)) market cap is about \$2 billion. It has also beat the market in the last three, five, and 10 years.

The graph below displays the difference in wealth creation of a \$10,000 initial investment over a decade. GSY stock created about \$230,680 more in wealth in the period than the market. GSY stock's 10-year total return equated to about 38% annually versus the market's 9%.



XIU Total Return Level data by YCharts

As the leading non-prime Canadian consumer lender, goeasy's products and services will always be in demand from a percentage of the population. The company has also made strategic acquisitions to expand its offerings and accelerate growth.

For example, in June, it announced an investment of \$40 million for a minority stake in Canada Drives, Canada's largest 100% online car shopping and to-your-door delivery platform. This investment was easily covered with about 22% of the company's trailing 12-month earnings.

The growth stock appears to be fairly valued versus its long-term normal valuation, but the analyst consensus 12-month price target suggests a discount of 37%. This translates to a potential upside of almost 60% in the near term!

Cyclical stocks

Highly cyclical stocks can be huge money makers, but perhaps some luck is required in picking a low buy point and a high sell point. For example, in 2020, **Baytex Energy** ([TSX:BTE](#)) hit a rock-bottom price of below \$0.50 per share. Who would have guessed that it could trade at \$7.12 today? An initial \$10,000 investment would have transformed into more than \$142,400.

Pundits believe that energy prices will remain relatively elevated in the near term. Therefore, they also believe energy stocks can head higher. In particular for Baytex stock, pundits have an average price target that represents upside of about 27%.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)
3. TSX:BTE (Baytex Energy Corp.)
4. TSX:GSY (goeasy Ltd.)

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