New Investors: Dollarama Stock Could Continue to Soar as the Market Rally Ends

Description

New investors who missed the recent run-up off those June lows are probably disappointed that the rally is running out of steam. Indeed, chasing market bounces expecting a continuation of positive momentum can be a dangerous game. In any case, I don't think we're headed for a return to those lows.

Though I'm sure many bearish pundits would confidently claim that we're headed for such levels. Technically speaking, the market rebound is still in play. And arguably, it has stronger legs after the recent 3-4% pullback. After a double-digit percentage rally in a matter of weeks, you have to expect a pullback of some sort. This pullback seems more than buyable, especially for stock pickers willing to be extra selective with their purchases.

With rates on the rise, the days of "easy" money are over. Credit is harder to come by, and many startup stocks with zero profits to show will need to either push into the green or run the risk of slogging through an L-shaped recovery after its stock has finally bottomed out.

Getting ready for a recession with quality stocks

Many talking heads have pointed to a recession rearing its ugly head at some point in 2023. Though many expect a milder one that's shorter in duration than those in the past, investors should not expect central banks to be accommodating anymore. Not until inflation is pulled back down to levels it deems as normal. That's why I think it's wise to be a buyer of the defensive staple stocks that can hold their own better than discretionary stocks.

In this piece, we'll have a closer look at one great recession-resilient company with stable operating cash flows and a solid balance sheet. These fundamental traits will help it thrive in a perfect storm of inflation and an economic slowdown.

Consider **Dollarama** (TSX:DOL), a very well-run defensive firm that could continue outperforming, as the Bank of Canada continues tightening.

Dollarama

Dollarama is a well-run discount retailer that's done a magnificent job of steering through supply constraints and inflation's impact. Arguably, Dollarama benefited from the surge in inflation, as consumers flocked over to its stores to save money. While Dollarama has increased prices accordingly over the years, it's the value and price predictability that Canadian customers appreciate in times when it's difficult to tighten the balance sheet.

As recession looms, consumers could feel even more of a pinch. And it's Dollarama that could see more wind at its back. The stock's up over 38% in the past year. At 35.2 times trailing price-to-earnings (P/E) multiple, shares are no longer cheap. Still, they're in line with the discount store industry average.

As economic storm clouds approach, I think store traffic could surge much further. With that in mind, I think the stock looks far pricier than it actually is, given the stage set in 2023.

With a 0.82 beta, Dollarama is slightly less choppy than the broader TSX Index. Though a soft landing would limit upside over the year ahead, I view the discount retail titan as a must-own going into rougher waters.

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