2 TSX Stocks That Are Actually Beating the Market

Description

If we only observe the short-term returns of a stock, it's impossible to tell whether it actually truly beats the market. I mean, yes, you can tell if it outperforms or underperforms the market in the period. But it may beat or underperform the market in that time due to temporary, favourable factors. Investors should seek those **TSX** stocks that are actually beating the market long term.

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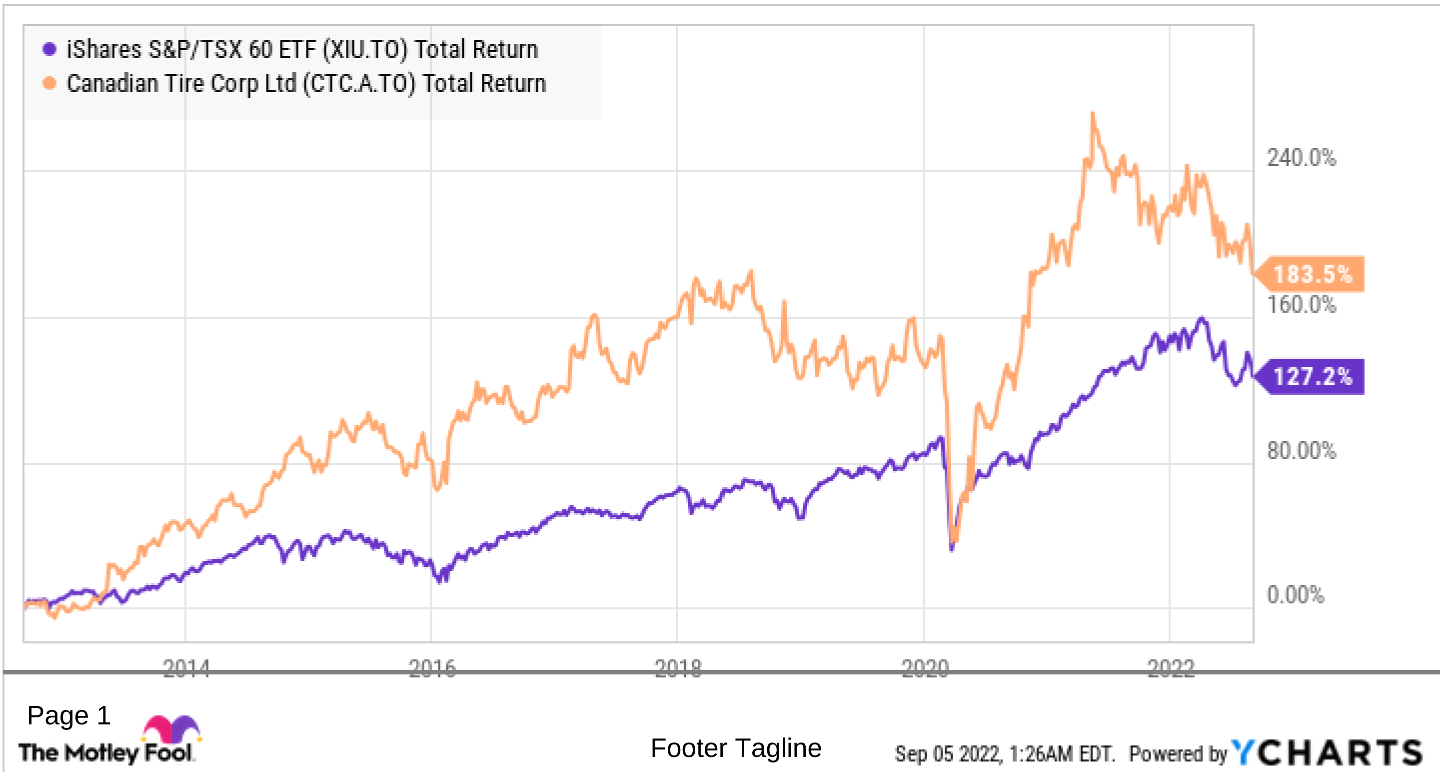
Here are a couple of TSX stocks that have underperformed the market, using **iShares S&P/TSX 60 Index ETF** as a proxy, in the last 12 months but have beaten the market longer term. The top TSX stocks include **Canadian Tire** (TSX:CTC.A) and **Converge Technology Solutions** (TSX:CTS).

Canadian Tire stock

Canadian Tire stock is down about 16% in the last 12 months versus the market's 4% decline. However, it has outperformed the market in the long run. So, the retailer may be worth another look now that it's underperformed. Here's a 10-year chart for illustration.



CTC.A and XIU Total Return Level data by YCharts

The company's adjusted earnings per share (EPS) was flat in 2020, affected by temporary economic shutdowns. This partly helped drive a 45% jump in adjusted EPS in 2021. Such high growth doesn't normally repeat itself in the subsequent year. So, it's only normal to expect more moderate growth in earnings going forward.

In the past 10 years, the Canadian retail stock achieved adjusted EPS growth of 12.7% per year, which is superb. If anything, this track record illustrates the retailer's ability to grow for the long haul.

Ryan Bushell explained Canadian Tire's challenges well on *BNN* in March 2022:

> "Canadian Tire did well in the pandemic, but we worry this may go into reverse. We like the management, the dividend, its online efforts, and the business. We like the fundamentals, but not the macro. Discretionary spending on durable goods is a lot of what they sell and so it may get squeezed."

Indeed, high inflation and rising interest rates have dampened consumer spending. Right now, Canadian Tire is a low price-to-earnings-ratio stock that's expected to have slower growth over the next couple years.

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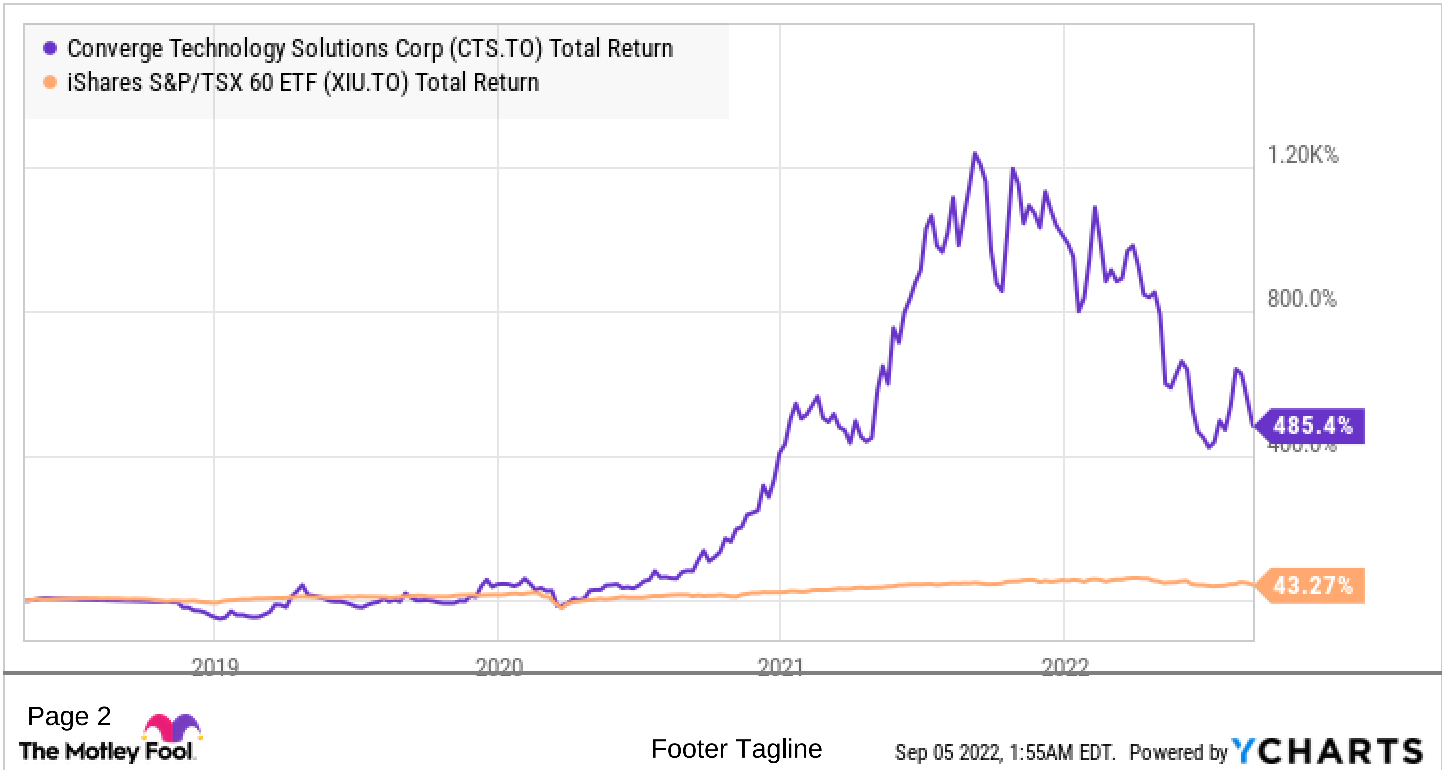
However, it has a 20-year dividend-growth rate of 13.1%, which shows management's commitment to its growing dividend. Moreover, its yield of 4.12% is competitive versus the market's yield of 3.15%.

Given today's environment, interested investors may be able to buy CTC.A at a lower price and bigger yield over the next six to 12 months.

Converge Technology Solutions

Converge stock has underperformed the market even more severely. The tech stock is down 54% over the last 12 months. However, it has incredible growth potential.



CTS Total Return Level data by YCharts

It’s expanding in North America and Europe via acquisitions. And it has been successful. Otherwise, the stock wouldn’t have run up approximately 47% in about 1.5 months last month, with much of the rally happening after it reported impressive quarterly results.

Alas, today’s macro environment is hostile to growth stocks. Patient investors could see the stock double over the next few years. Across 12 analysts, Yahoo Finance shows a consensus 12-month price target that suggests 92% near-term upside from $5.65 per share at writing.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:CTS (Converge Technology Solutions)

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