



2 Market-Crushing Stocks With Upside Momentum

Description

[Value](#) stocks with a bit of momentum behind them may be terrific buys for times like these, when volatility is in the air, and things could not be more uncertain. Rates are likely headed higher in the battle against inflation. However, there's a good chance that inflation could collapse, as Credit Suisse seems to think. Undoubtedly, a sudden pullback in the rate of inflation would call for fewer rate hikes — perhaps even rate cuts in more than a year from now. In any case, signs that the inflation beast is close to being slain is a huge sigh of relief for bond and stock investors.

Indeed, the road behind it has been quite ugly for all sorts of investors. Fixed-income securities have been brutal, as have been stocks. Though it seems like stocks and bonds are weak investments in the inflation age, I'd argue that those making such conclusions may be looking too closely into the rear-view mirror. If inflation retreats rapidly, I believe bonds or other fixed-income assets like Guaranteed Investment Certificates and stocks have the best risk/reward scenario they've had in years.

It may not seem like it if you consider the trajectory behind us. However, looking ahead, I think investors should stay the course and top-up positions if they've got too much cash sitting on the sidelines.

Even as the market rocks back and forth, dollar-cost averaging (DCA) seems like a great way to dampen the downside and position yourself for solid upside if markets decide to turn on a dime.

Currently, I'm a big fan of **Constellation Software** ([TSX:CSU](#)) and **CN Rail** ([TSX:CNR](#))([NYSE:CNI](#)).

Constellation Software

Constellation Software may be down 12% year to date, but the long-term trajectory still seems intact. Over the past five years, shares have nearly tripled, with less in the way of volatility versus the TSX Index. That's thanks to management's ability to create value through acquisitions in the Canadian software scene. Indeed, Constellation is a private equity-flavoured type of growth play. Unlike most other tech firms, Constellation only makes deals when there's a good shot at [value](#) creation.

Further, the firm is growing profits at a solid rate (the latest earnings-per-share [EPS] numbers rose more than 30% year over year), albeit a tad pricey at 72.8 times trailing price to earnings (P/E). At over \$2,000 per share, Constellation seems like another overvalued tech stock, but it's held its own relatively well for a reason. It's creating ample cash flows and will continue to do so while exhibiting less choppiness than the averages.

CN Rail

CN Rail is a great railway titan to buy on any dips, regardless of what's troubling Mr. Market. Though the stock is back in rally mode after the late-August dip, I think investors are discounting the abilities of Chief Executive Officer Tracy Robinson. She's a great manager that's likely to put the railway back on track to becoming a best-in-breed operator.

The latest quarter saw EPS come in at \$1.93, up from the \$1.75 estimate. With ample investments in place to improve upon operational efficiencies, CNR stock strikes me as a stock that can weather a mild recession. At 22.1 times trailing P/E, CNR stock is by no means cheap. But it doesn't deserve to be cheap with its excellent new managers.

CATEGORY

1. Investing

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1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:CSU (Constellation Software Inc.)

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