Market Downturn: Growth Stocks to Load Up

Description

Central banks are expected to continue raising interest rates in the near term to curb inflation that's still too high. Compared to the Bank of Canada's target of about 2%, the latest inflation rate in August was 7%.

As the stock market downturn plays out, investors should consider adding to quality growth stocks for long-term wealth creation. The key is to use excess cash for purchases to ensure you won't need to tap into this investment money at a loss in the near term should prices fall lower. Here are a couple of growth stocks you can buy more of over time, as market volatility provides opportunities to buy at lower prices.

A top-notch tech stock

Constellation Software (TSX:CSU) is a fabulous business and easily one of the best stock performers on the **TSX** in the long run. For instance, it outperformed the Canadian stock market in the last three, five, and 10 years. In the long run, it's a substantial difference in wealth creation. Its 10-year annualized returns are almost 36.8% versus the Canadian stock market's return of almost 8.4% in the period.

Notably, the tech stock has been trading in a sideways range since the second half of 2021. Rising interest rates are increasing the cost of capital for businesses, which can slow down Constellation Software's merger and acquisition activities in the short term.

Constellation Software is such a high-quality company that the tech stock hardly goes on sale. Even during the March 2020 pandemic market crash, it traded at about 40 times earnings, which is roughly the multiple it's trading at now. At about $1,926 per share at writing, analysts have a 12-month consensus price target that represents a decent discount of approximately 25%.

A growth stock in the financial services space

goeasy (TSX:GSY) stock's 10-year annualized returns of 36.1% are also very impressive. After hitting a 52-week high of $218 per share, the growth stock has declined about 46% to roughly $117 per share. At about 10.7 times earnings, this is below its long-term historical valuation. That is, it's a reasonable valuation to accumulate shares for long-term growth.

The near-term weight in the growth stock includes concerns about rising interest rates and potentially a higher percentage of loan losses. Its recent net charge off rate of 9.3% in the second quarter (Q2) was in line with the leading Canadian consumer lender's target range of 8.5% to 10.5%. Moreover, its loan-loss provision rate has improved slightly by 0.10% to 7.68% in Q2 versus Q1 due to an improved product and credit mix of its loan portfolio.

goeasy also offers a nice dividend yield of 3.1%. And it will continue increasing its dividend over time for the long haul.

Foolish investor takeaway

No one knows how long the market may be depressed in this interesting economic environment. However, because of capital tightening, it would be smart for Foolish investors to ease into, load up, and build sizeable stock positions over time.

Both Constellation Software and goeasy are growth stocks that have strong long-term returns potential. Investors who can withstand the near- to medium-term market volatility could see their wealth swell over the next decade and beyond. Don't just rely on these two TSX stocks, though.

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