Worried About Tesla? This Canadian Tech Stock Is Way Less Volatile

Description

Tesla (NASDAQ:TSLA) stock took a big tumble on Monday, as markets digested the impact of China's latest political shakeup. China, home to one of Tesla's biggest factories, got an entirely new leadership team over the weekend, as Xi Jinping secured a third term and ousted most of his lieutenants. Chinese stocks were routed, as markets reacted to a Chinese cabinet made up of Xi Jinping loyalists. China's Hang Seng tech index fell 6% when trading opened Monday, Tesla fell a more modest 1.5%.

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Investors have been worried about Tesla's China connections for some time. Tesla Shanghai is the company's biggest factory by output, and it generates significant revenue. Should China pursue draconian economic policies in the years ahead, it could have a negative impact on Tesla's bottom line.

Tesla stock has beaten the naysayers before. Between Elon Musk's public statements, the **Twitter** deal and safety incidents, TSLA has faced big challenges. Historically, it has always come back from its setbacks bigger and better than ever. Perhaps it will this time, too. If you don't believe that it will, then read on, because in the ensuing paragraphs, I will be exploring one Canadian stock that has done almost as well as Tesla while being less risky.

Constellation Software

Constellation Software (TSX:CSU) is a Canadian software company founded by venture capitalist Mark Leonard. It's a publicly listed company, but it operates much like a venture capital fund: it seeks to buy smaller tech companies and incorporate them into its own portfolio. Since its initial public offering in 2006, CSU has risen 10,394%. That's not quite as good as Tesla's gains (it's up 18,000%), but CSU has given investors a much less bumpy ride.

Constellation Software is less volatile than Tesla

The word *risk* can be controversial. In textbook finance, it is synonymous with volatility. In the world of value investing, it means "permanent loss of capital." Ultimately, this debate comes down to time frames. If you need to sell soon, then volatility itself is a risk. If you plan on holding for a long time, then risk is more about poor business performance. Regardless, volatility is the only known proxy for risk that can be calculated mathematically. By that standard, CSU is much less risky than Tesla is.

Beta is a statistical construct used to approximate risk. To calculate it, you take the covariance of A and B (i.e., how much the asset and the benchmark move together) and divide it by the benchmark's variance. The higher the number, the riskier the asset.

Going by beta, Tesla stock is far riskier than Constellation Software stock. Morningstar, a reputable research firm, calculates Tesla's beta as 2.13 and CSU's beta as 0.86. In other words, Tesla stock is two times more volatile than the benchmark, while CSU is *less* volatile than the benchmark! It is pretty remarkable for a stock to be less volatile than its benchmark. Generally, it's thought that the least-risky portfolio is the most diversified one, but here we've got a single stock that's less "risky" than the market (going by volatility). That's a remarkable finding.

None of this is to say that CSU is a "raging buy" or that TSLA is a clear sell. Tesla has much stronger growth than Constellation Software, and its business model is a lot easier for an average investor to understand. Nevertheless, if you're looking for a tech stock that offers a less stressful experience than Tesla, history suggests that Constellation Software is what you're looking for.

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