2 Bounce-Back Candidates for the New Year

Description

The pain has dragged on for Canadian investors, with the bear market continuing to eat its way into investment portfolios. Indeed, many pundits expect more pain to come, as we move into the new year. Despite the "doom and gloom" tone, investors should keep their sights set on the long haul. There's no bell that goes off when the stock market selloff is over. But you'll want to stay invested in companies you truly believe in once the tides turn and momentum turns (sustainably) positive.

Yes, the swings can be difficult to ride out, as the number of uncertainties grows while the perceived risks rise. The sudden rise in interest rates has made fixed-income securities that much more palatable.

Why take on risk with equities when you can lock in a pretty good rate (nearing 5%) with a GIC (Guaranteed Investment Certificate) and not risk a dime in principle?

Indeed, GICs are looking like solid investments, especially as inflation rolls over and central banks begin to hit that pause button (maybe a rate cut is in order in 2023?). That said, young investors must be brave if they're to make the most of this 2022 market selloff. No bear market or selloff will ever be easy to buy. Being a contrarian feels incredibly uncomfortable, especially if you "buy into" the bearish commentary being trumpeted around by the smart market-forecasting pundits.

Once inflation falls back to more manageable levels, the focus will shift from the Fed (or the Bank of Canada) back to earnings (and perhaps sales growth). If you're invested in a company with a strong balance sheet and fundamentals, you need not hit the panic button.

In this piece, we'll consider two battered stocks that I view as terrific bounce-back candidates for 2023 and 2024.

Canada Goose Holdings

Canada Goose Holdings (TSX:GOOS) is a luxury parka maker that exploded onto the scene when it went live on the TSX Index. Since peaking in late 2018, it's been a painful descent. The stock has shed more than 72% of its value, as the valuation got slapped with a vicious reset. As we head into a recession, demand for upscale outerwear could stay weak. Fortunately, such recession jitters already seem priced in.

Longer term, Canada Goose is a great international expansion play. With terrific brand power and a competent management team that doesn't have to spend considerable sums on marketing, Canada Goose could reverse quite sharply once most of the downturn fears are in.

It's hard to time a discretionary like Canada Goose. Regardless, I think it's worth braving the negative momentum while the valuation is close to the lowest it's been in years (2.2 times price to sales).

Nuvei

Nuvei (TSX:NVEI) is a payments firm that's seen shares get crushed at the hands of the 2022 tech selloff. Higher interest rates are mostly to blame for the vicious shift from growth to value. Even as investors turn their backs against the fintech innovators, Nuvei continues to move forward with its partnerships. Recently, Nuvei won the business of Virgin Atlantic.

Every new partnership could take a bit of edge off the stock as it looks to turn a corner from a nearly 80% peak-to-trough collapse. Undoubtedly, NVEI stock is a very risky play that could continue to sag until the tech trade warms up again. At 4.6 times price to sales, though, NVEI stock is pretty cheap for payment player with a world of growth ahead of it.

Bottom line

When all's said and done, it's the long term that matters! The market fluctuations in between are to be expected as you stay invested over the years. And, more often than not, such fluctuations you don't need to hit the sell button provided you put in ample due diligence beforehand.

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