1 “Future” Stock to Hold for the Rest of This Decade

Description

High-tech innovation stocks and growthy names with pie-in-the-sky multiples have already endured such a massive fall from glory. Indeed, many pundits think the recently crashed names will not be able to find their footing again, at least not with central banks continuing to raise interest rates. With the Federal Reserve focused on continuing to keep rates high (recent commentary made for a choppy trading session on Wednesday), there’s a good chance that the value trade could continue to shine in the place of the “futuristic” growth plays.

In a higher-rate climate, investors just don’t care about paying up a premium multiple for profitability in the future. The farther in the future we need to look out for big profits, the more damage a stock will endure over the medium term, at least until rates show signs of retreating. For now, rate cuts in 2023 seem like wishful thinking.

Though anything is possible, investors should not position their portfolios (TFSAs and RRSPs) such that they’re dependent on monetary policy. At the end of the day, we as investors can’t control everything, especially central bank moves. What we can control, though, is where we focus our efforts. Instead of trying to forecast where rates will settle in 2023 or 2024, try to find the most attractive opportunities that exist today.

When growth stocks become the new value stocks

Now, value isn’t exclusive to non-growth areas. After such a growth bloodbath in 2022, there’s arguably great value to be had in tech names. On the flip side, the so-called value stocks (think defensive dividend stocks) may have minimal value at these levels, given how many investors flocked into the “value” trade over the past year.

Remember, a recession has been on the radar of many investors for around a year now. With that, the price of admission into some value names may be so extended that there may be no margin of safety to be had. Indeed, those so-called value stocks (think the higher-yielding defensives) may have less value than growth stocks. Ultimately, it depends on the price you’ll pay.

In this piece, we'll consider one "future" growth play that may be richer with value in 2023.

Consider shares of **Constellation Software** (TSX:CSU).

Constellation Software: A top TSX stock to hold for decades!

Constellation Software is a magnificent company with a management team that knows how to spot value in the small-cap software space. Indeed, Canadian software unicorns can be pretty risky to invest in if you don't have the right skill set to evaluate the potential opportunities.

Unlike most other firms engaged in helping smaller tech firms, Constellation has a value approach. It'll only make deals it believes will pay off in the future. With deep pockets and the expertise to help firms it acquires live up to its full potential, it should be no mystery as to why CSU stock has outperformed the broader TSX Index over many years.

I believe Constellation's strategy will lead to more of the same. The stock is down around 9% from its high. That's far less than the tech-heavy Nasdaq 100 (which flopped more than 30%). At 69.4 times trailing price to earnings (P/E), I view CSU stock as a future-proof innovator with a value twist.

As valuations continue to tumble in the Canadian tech scene, look for Constellation to keep on wheeling and dealing, as it looks to stretch every dollar as far as it can go. It's what it does best.

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