TFSA Investors: This Canadian Growth Stock Is a Best-in-Breed Stock

### Description

TFSA (Tax-Free Savings Account) investors should be ready to drip-feed some excess capital back into stocks after more than a year of selling pressure. Undoubtedly, growth stocks have fallen out of favour. And those looking to catch a falling knife may punch themselves a one-way ticket to even more pain. Sure, things will get better for the fastest-falling stocks in this market.



They always do. That said, nobody knows how bad the damage will get, as the Bank of Canada (BoC) continues raising interest rates. Higher rates are more detrimental to companies that are not yet profitable. In 2021, many TFSA investors may not have even considered whether a high-tech innovator will ever become profitable. Simply put, investing in unprofitable growth plays (think stocks with no price-to-earnings multiples) entails making a judgment about the future.

The further in the future you need to peer for a sustainable move into profitability, the less a stock should be valued today based on today's lofty interest rate. And looking further into the future with unpredictable tech-driven names also leaves an investment thesis more subject to devastating unknowns. Indeed, a rise in competition and other things not yet on our radar may cause us to look at an unpredictable and unprofitable company through rose-coloured glasses, especially if the name has a lot of hype and momentum behind it.

## Growth investing need not be hard for TFSA investors

Now, I'm not against investing in battered growth stocks. However, I just think there's an easier way to make money over the next three to five years with companies that exhibit promising growth traits and have already made the move into profitability.

Indeed, it's exciting to chase the next big thing. But in an era of high rates, it's just that much harder to for the innovators. If anything, such small-cap tech plays may be in a winter that may last years. That's the real risk for those looking to buy the dip in once-hot disruptive growth companies.

In this piece, we'll consider **Aritzia** (TSX:ATZ): a profitable company with a growth profile that won't be derailed just because rates could make a move to 5%.

## Aritzia: Profitable growth at a reasonable price

In a world of high rates, you not only need to get a good value for your investment dollar; you also need profitability and a growth plan that could lead to much greater profitability over the next 10 years.

Aritzia fits the bill as a rather predictable earnings grower. The woman's clothing retail is doing well with its early-stage expansion into the United States. Canadians know and love the domestic brand, and Americans may soon gain a better appreciation for the upscale fashion brand, as it takes on U.S. rivals.

Indeed, Aritzia faces hurdles as a recession lands, hurting demand for nice-to-have goods like apparel. In any case, Aritzia is one of few firms that can turn a recession year into an opportunity to gain ground over rivals. In that regard, I'm a huge fan of the $5.7 billion (non quite a mid-cap stock) company and its terrific managers.

As with most discretionary stocks, Aritzia is at risk to a cyclical downturn. Still, longer term, I view the firm as one of the most attractive growth plays to come from Canada. Indeed, Aritzia follows in the footsteps of some wonderful companies founded in Vancouver. Whether Aritzia can evolve to become a global apparel giant remains to be seen.



In any case, I think it's hard to pass up the name at 31.8 times trailing price to earnings. Had Aritzia been an American brand, I'd be willing to bet shares would have a much heftier price tag, given the growth profile and relative predictability versus your average, high-growth software unicorn.

## A great buy for TFSA investors

I think ATZ stock is a fine addition to any long-term-focused TFSA. It'll be interesting to see if Aritzia will still be fashionable on the international stage 10 years from now. I think it will be.

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