Don’t Waste Your Money on Penny Stocks: These 3 Stocks Are Better Buys

Description

Penny stocks can be tempting. Trading at less than $1 per share, big jumps always seem to be right around the corner. Low-priced stocks do tend to make big moves at a speedy clip, and even master investors like Fool founder David Gardner will admit to being swept up in the promise of penny stocks — as a young and untrained investor.

But volatile penny stocks are usually found in Wall Street’s bargain bin for a reason. They could be unproven upstarts, still looking for a first big break. Some are fallen giants, struggling to adapt to ever-changing market conditions. Either way, penny stocks often stoke dreams of big returns only to drop all the way to zero in the end.

Experienced investors will prefer a more substantial company over penny stocks, 999 times out of 1,000. On that note, here are three higher-priced stocks that look so tempting right now that I actually bought some of each last week.

The not-really-struggling e-commerce giant

You can’t get much further away from penny stock territory than e-commerce giant **Amazon.com** (NASDAQ: AMZN). At $853 billion, Amazon’s market cap stands among the three largest on the stock market today. Moreover, the company hasn’t executed a single stock split in this millennium, and has risen 2,800% since the last split in 1999. Explosive share price growth plus that aversion to stock splits equal a current stock price of $1,737 per share — one of the five highest per-share prices available.

Amazon’s massive long-term gains include a sharp lull in recent months. The stock has traded largely sideways over the last year and a half, posting a negative 11% return in the last 52 weeks. Unless something is very wrong with Amazon’s business, this would be a great time to pick up some shares.

I understand why Amazon’s stock is sputtering at the moment. Investors worry about the ongoing trade war between China and America, which boosts nearly every retailer’s operating costs. But that’s a short-term downside to a generally thriving business model. Most of Amazon’s operating income stems from cloud computing services rather than e-commerce sales nowadays. The company is also becoming a logistics powerhouse, handling more and more of its enormous shipping volumes through in-house services. And when that Chinese-American trade tension lifts, Amazon will enjoy lower costs amid a spike in order volumes.

I've seen my existing Amazon shares more than double in value since 2017, and I expect big long-term returns from the shares I added last week. Amazon was never a penny stock or even a small-cap ticker, but the company is still staring down a high-growth runway typically associated with hungry little start-ups.

That's a no-brainer buy right now.

The beaten-down innovator

Next up, I added a few shares to my stake in **Tesla** (NASDAQ: TSLA). The electric-car company isn't quite as massive as Amazon but still carries a very substantial $$41.5 billion market cap and a $238 price per share.

Just like Amazon, Tesla's rampant growth has hit the brakes in recent months. The stock has dropped 22% in 52 weeks and trades 37% below its yearly highs. Here, investors are worried about vehicle deliveries below analyst forecasts. That nitpicky concern ignores Tesla's huge production and delivery growth. Skyrocketing revenue growth meets sinking capital expenses, leading up to $1.4 billion in trailing free cash flows. For those keeping score at home, the company hasn't reported positive free cash flows at any point in its publicly traded history.

So, Tesla's business is doing just fine, despite competitive pressure from a rising range of electric vehicle rivals. In the very long run, that's not even what Tesla wants to be — we're actually looking at a future energy giant in the making, built around a combination of green energy generation and cutting-edge battery technologies.

I think Tesla is among the most misunderstood companies on the planet these days. That's why I'm downright happy to invest in this stock right now, even if many investors are running in the opposite direction.

A small but strong internet service specialist

Finally, it was time to dip a toe into **Tucows** (NASDAQ: TCX) — a company I have been following closely for years but never got around to adding to my portfolio.

This is a smaller company but still far from a penny stock. The Canada-based provider of various internet services trades at $51 per share today, yielding a market cap of $558 million.

The foundation of Tucows' business has been domain name registration for many years. Thanks to a series of client portfolio buyouts, the company now boasts the second-largest account catalog in the domain name industry with 29 million domains under management. Now, that's no hypergrowth business but domain name deals do provide a stable and substantial cash generation platform from which Tucows can launch into more exciting ideas.

At this time, Tucows is leaning into the internet service provider market through two different operations under the Ting brand. Ting Mobile is a full-service cellphone network where Tucows resells access to **T-Mobile** services at a lower cost and with Ting's high-quality customer service. The network provider will shift to **Verizon** starting with new subscribers in early 2020, but the core idea remains the same.

Moreover, Ting Internet is a fiber-optic broadband service that offers gigabit service at a reasonable price in a handful of small, handpicked markets. Currently available in six small towns such as Charlottesville (Virginia) and Sandpoint (Idaho), Tucows is opening three more Ting Internet markets soon and planning to take the concept further over the years.

Ting Internet expanded its customer list by 54% in the second quarter of 2019, compared to the year-ago period. This is the high-growth operation that should deliver strong returns for Tucows owners in the long run. And the company is built on a risk-mitigating foundation of slower-growth services that most penny stocks just can't match.

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TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NASDAQ:TCX (Tucows)
3. NASDAQ:TSLA (Tesla Inc.)

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