



Is Sierra Wireless Inc. a Safe Investment?

Description

Shareholders of **Sierra Wireless Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) have been on a roller-coaster ride for most of the past 15 years, and the action in the past 12 months suggests that trend is set to continue. In fact, investors need a strong stomach to own Sierra's stock.

Since the turn of the century the shares have gone through a number of strong rallies and equally impressive declines, each time making savvy traders very rich, while draining the pockets of the rest.

Between October 1999 and February 2000, the stock surged from \$16 to \$200. With a bit of cash and some good timing, you could have put away your retirement nest egg in just four months!

Of course, there is another side to the story. Three months later the shares were back at \$40 and the poor souls who held on in hopes for a new rally watched the slide continue until October 2002 when the stock bottomed below \$3 per share.

Most tech companies would have disappeared after that, but Sierra is a survivor and the stock enjoyed another bull run in 2004 that served up another 10-bagger for the gang who bought the stock when it dropped below \$5 per share.

Today, Sierra appears to be repeating the process.

Last summer you could have picked up the shares for about \$20 and then booked a nice profit when they broke above \$56 at the end of December.

Since then, it looks like history is repeating itself because the stock has fallen 40% and now trades at \$34 per share.

Is this a buying opportunity?

There is good reason to believe in the fundamentals of Sierra in its current reincarnation. The company is the leader in the new Internet of Things (IoT) space and is doing a solid job of growing revenues and making strategic acquisitions to bolster its dominant position in a rapidly expanding part of the IoT

market.

With no debt and a leadership position in a hot new segment, you would think the stock is destined to rocket higher – and it might, but there are a few things to consider.

Sierra has a big challenge in that it is still a very small company. At the time of writing, Sierra has a market capitalization of just over \$1 billion.

This makes it a David surrounded by Goliaths who are looking at the IoT space with greedy eyes and wondering if they should make friends with the little guy, or simply bury him.

In the IT sector, money talks. You have to have the funds to attract and keep the best talent, defend your market share, and innovate on a constant basis. To put the challenge in perspective, **IBM** recently set aside \$3 billion to set up an IoT division.

Sierra might eventually get bought out at a nice premium and that would be good for shareholders. The other scenario is that it just gets steamrolled by the big boys.

From a technical perspective, things don't look good. Sierra is probably headed to \$30 before it hits some downside resistance. If that point holds, the stock could rebound nicely. Otherwise, look out below.

Given Sierra's track record, I would stay on the sidelines right now and wait for a strong reversal to take hold before taking a position in the stock.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:SWIR (Sierra Wireless)
2. TSX:SW (Sierra Wireless)

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