FAANGs for the Memories: How to Invest in Canadian Tech Stocks Instead

Description

What with fake news and fake followers causing FAANG stocks to lose big in recent weeks, Canadian investors might be wondering whether domestic stocks might offer a less volatile way to play the tech markets.

A while ago, some analysts were convinced that Canada was going to get a big tech boom. They saw the TSX index coming in line with other markets, such as the NYSE, NASDAQ, and LSE, on which tech has a massive presence. Now that U.S. tech stocks are getting a serious reshuffle, perhaps it's time for their Canadian counterparts to have some time in the sun.

Here are two homegrown stocks to take tech to the next level in your investment portfolio. They belong to the DOCKS, a group of five high-flying Canadian tech stocks that is the domestic answer to the bigger and more famous FAANGs beloved of shareholders south of the border.

The Descartes Systems Group Inc. (TSX:DSG)(NYSE:DSGX)

The first of our duet of homegrown tech stocks, Descartes Systems Group provides networking and logistics solutions internationally. If you think its overvaluation by 56% of its future cash flow value is bad, you haven't seen some of the other tech stocks on the TSX. Descartes Systems Group is not good value today, with a P/E of 90.6 times earnings, PEG of 3.8 times growth and P/B of 4.8 times book.

So why recommend this stock? At $42 at the time of writing, it's cheaper than some of its competitors, it has a 24% expected annual growth in earnings, and holds a low level of debt. General upward momentum coupled with a recent dip further signify that this stock is a buy for investors looking for upside from a leading Canadian tech stock.

OpenText Corp. (TSX:OTEX)(NYSE:OTEX)

OpenText makes and sells software for streamlining business information across devices. It's not as exciting as a FAANG stock by any means, though it's a solid and dependable player. Currently discounted by 36% compared to its future cash flow value, it's the best buy of the DOCKS today.

A P/E of 43.5 times earnings is actually indicative of good value for a Canadian software stock; the average for the sector is 54.8 times earnings. OpenText's PEG of 1.1 times growth is good, too, while its P/B of 2.7 times book also beats the sector average of 4.1 times book. A 39.9% expected annual growth in earnings shows that good things are still to come, while a dividend yield of 1.63% might keep some passive income investors satisfied.

The bottom line

The woes of the U.S. FAANG stocks seem to be weighing on our own domestic DOCKS stocks, presenting slight value opportunities in a few of them. Along with their fellow DOCKS members, Descartes Systems Group and OpenText have yet to prove whether they can outrun the American tech boom. However, what's clear is that there is still some upside to be enjoyed by investors looking to take a chance on a Canadian tech bull run.

As with Descartes Systems Group, OpenText's stock has a general upward momentum and is currently in a bit of a dip. These are good momentum stocks, making them solid choices for investors looking for mid- to long-term capital gains. They also have great growth prospects, and OpenText in particular is still very good value for a big tech stock.

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Date
2025/06/28
Date Created
2018/08/04
Author
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