



Tech Investors: This Is the Pullback You Have Been Waiting for

Description

It's truly amazing how falling tech and marijuana stocks are a shock to so many people. For years, people have been talking about how these companies were overvalued. It was no mystery that they were trading at high valuations that were not justified by their fundamentals. Now, in hindsight, it seems obvious that there would be a correction at some point. The current problem is whether you should get into these stocks at all now that they are dropping like a stone.

The truth is that even though these companies were very highly valued, they were growing at significant rates. Many companies saw their revenues growing at double-digit rates on a regular basis, with earnings and free cash flow not far behind. With numbers like these, it is easy to see why people were pouring money into these stocks. Unlike the dot-com days of the late nineties, several of these tech companies were viable businesses with strong growth.

But as is often the case in the market, stock prices got ahead of themselves. High-multiple stocks got even higher, leading people to believe that they would never fall. Now that they have begun to come back to earth, should we revisit these names or wait until they fall even further?

Take a company like **Kinaxis** ([TSX:KXS](#)), the international supply chain management software company. Over the past several years, it has been a growth machine, with revenues increasing substantially over the past several years, including year-over-year revenue growth in the second quarter of 2018 of 19%.

This is one company that would be worth adding, and it has certainly pulled back and might be worth a look. Even with the pullback, though, the company [remains expensive](#) at 46.5 times forward earnings. This company is still in growth mode and may not get a whole lot cheaper.

Or look at **Open Text** ([TSX:OTEX](#))([NASDAQ:OTEX](#)), the [information management](#) solutions company. This stock continues to perform and has a dividend to boot, unlike Kinaxis. After the pullback from its \$50 plus highs, the stock is yielding almost 2%. The company has been growing that dividend at a steady clip, including a hike earlier this year of 15%.

Open Text has been growing its revenue at a 15% compound annual growth rate over the past six

years, and its revenue will most likely continue to grow in spite of the downturn in the share prices. It is also quite cheap considering the growth rate, trading at a forward P/E ratio of 12.2.

But should investors get in now?

If you are looking to buy either of these Canadian technology companies, the answer to whether you should enter a position in the stocks is definitely yes. This is the pullback that people have been waiting for, and these stocks have come off of their highs significantly.

A more important question than whether or not you should buy these stocks is how much of the stock you should buy. There is a very good chance that these companies will continue to fall in the near term, so ease into them gradually. A good rule of thumb is to assign a certain amount of your portfolio to allocate to the position.

You can choose a percentage (e.g., 5%) or a certain absolute amount (\$5,000), although a percentage is generally a better benchmark in regards to the stock's impact on your overall portfolio.

Slowly add to the stock over time, maybe buying a 2.5% position today and the other 2.5% in a month's time to bring the total up to 5%. After you have purchased the initial 5%, monitor the position monthly (or yearly if you're really hands off) and either bring it up to 5% if it has fallen, or sell it down to 5% if it has risen.

CATEGORY

1. Investing
2. Stocks for Beginners
3. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)
2. TSX:KXS (Kinaxis Inc.)
3. TSX:OTEX (Open Text Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Stocks for Beginners
3. Tech Stocks

Tags

1. Editor's Choice

Date

2025/08/21

Date Created

2018/11/01

Author

krisknutson

default watermark

default watermark