These 2 Cheap Tech Stocks Are Not Worth Investing in

Description

Tech companies are constantly looking for the next big idea. Those that manage to make important breakthroughs often turn into gold mines, and investors who are wise enough to invest in them are handsomely rewarded.

Not all tech stocks are created equal, though. Indeed, many have very little upside and are hardly worth the risk. Today, I bring you two tech stocks that I would avoid at all cost: **Evertz Technologies** (TSX:ET) and **EXFO** (TSX:EXF)(NASDAQ:EXFO).

Evertz Technologies

Evertz manufactures electronic systems for the broadcast and film industry. These systems facilitate the production and delivery process of broadcast content to electronic devices. Broadcast and media production is higher than ever and is projected to continue rising. Thus, companies that deliver the types of products and services Evertz offers are in high demand.

The most successful companies within this industry — as with any industry — are those that manage to gain a competitive advantage. Unfortunately, Evertz is not one of the juggernauts of its industry. The Ontario-based company has not produced the kind of ground-breaking technological innovations that would set it apart from its competitors.

Evertz's IPO was in 2006. The company's share price hit an all-time high of about $40 in late 2007 before taking a rapid nosedive in 2008. Evertz's share price has remained within the same range for over 10 years. The company possesses no moat and shows few growth prospects. I would stay away from Evertz stock for the foreseeable future.

EXFO

Cheap stocks often appeal to investors. The value of a company is not always reflected in its stock price, and a company whose value far exceeds its stock price is the holy grail of investing. After all, **Apple's** stock was worth less than US$20 about 10 years ago, and **Amazon** went for less than US$5 soon after its IPO. Despite currently being cheap, though ($4.54 at the time of writing), EXFO’s stock is not worth the trouble.

EXFO services the telecom industry. The company manufactures products that are used as test instruments for telecom infrastructures. EXFO fulfills a high demand in a growing industry and currently possesses over 30% of the market share in Canada. Despite these advantages, EXFO has struggled to turn in substantial profits recently.

EXFO’s net income over the past few years has been highly volatile. The company returned a net loss in 2017 and is on pace to do the same in 2018. EXFO seems unable to take advantage of the opportunities it currently has. This poor financial performance could be due to a lack of innovation, poor operating efficiency, etc. Whatever it may be, I can think of no compelling reason to purchase shares of EXFO at the moment.

The bottom line

Few sectors have the growth potential the tech sector possesses. This makes for a highly competitive and even cut-throat environment within the industry, and companies that are left behind are unlikely to catch up. Evertz and EXFO were both left in the dust by their competitors and currently show no signs of being able to catch up. Investors would be wise to keep their distance.

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