



The Cloud's Monday Mini-Meltdown: 5 Stocks Where I Bought the Dip

Description

Investors in high-octane but equally high-valuation cloud computing stocks were welcomed on Monday with a mini-meltdown, [well documented here](#) by fellow Fool.com contributor Anders Bylund. Maybe a bunch of money managers all got into the office on Monday with to-do lists that included some selling and subsequent buying in bargain areas of the market (oil and retail, for example, went up). Or maybe individual investors all decided that 2019 has been a fantastic year so far, and it was time to take some profits. Maybe it was a little of both, or something else entirely.

Who knows, but sometimes there is as much explanation for a sell-off as there is a logical explanation for why an unprofitable — albeit fast-growing — company like [Beyond Meat](#) would increase in valuation by several hundred percent in just a few months' time. At any rate, if you were holding on to cloud stocks over the weekend and found your holdings took as much as a double-digit haircut come Monday, two things should be true:

1. You believe the cloud has years of growth left, and in fact is only just at its beginning as ["edge" computing](#) starts to take the reins; and
2. You have more cash to add to your small position as you [build out your final holdings over time](#).

My post-Monday-meltdown shopping list

Company	My Purchase Price	Percentage Off All-Time High	Market Cap
Salesforce.com (NYSE: CRM)	\$150.99	10%	\$136 billion
Twilio (NYSE: TWLO)	\$112.27	26%	\$16 billion
The Trade Desk (NASDAQ: TTD)	\$213.02	26%	\$10 billion
Okta (NASDAQ: OKTA)	\$109.05	23%	\$13 billion
Alteryx (NYSE: AYX)	\$118.06	20%	\$8 billion

Data source: YCharts.

Why I'm buying

When surveying the field of (mild) destruction, I tried to pick a sampling of companies from across the cloud and enterprise software sub-industry. I started with Salesforce, a stock I've owned for quite some time — by far the largest of this group and one that didn't budge much, while its smaller peers tanked.

That's likely because much of Salesforce's recent dip had already happened. Investors have been fretting over the company's [spend-happy ways](#) with the 2019 acquisition bill nearing \$20 billion. But Salesforce's strategy seems to be paying off. During the second-quarter report, management said it expected a reacceleration of revenue in the next couple of quarters nearing 30%. That's quite the feat for a company the size of Salesforce, and I think it gives the relationship-management giant a clear path to becoming one of the largest tech companies in the world over the next decade or so.

I'll admit that [Twilio](#) and [The Trade Desk](#) are two companies that took me some time to understand. I didn't make my initial purchase of each until earlier this year, but I bought in after I understood what each of them does. Twilio is changing the way businesses communicate with their customers, offering a suite of cloud-based tools to enable digital interaction. The toolkit includes text, voice, video, email, login security, and other digital functions, all of which developers can integrate into their own apps and websites.

The Trade Desk operates a type of advertising exchange where buyers of digital ads can bid and optimize their marketing. With connected entertainment (think streaming TV and music) only increasing, Trade Desk's connected-TV and audio segments have been growing like weeds as of late.

Both companies are making it easier for their customers to operate, disrupting the status quo in software development and ad purchasing. The results say as much. During the second quarter, Trade Desk's revenue grew 42% year over year, while Twilio's went up 86%.

The cybersecurity space has been a really interesting segment of tech the last few years. Cloud computing has changed the game for digital security, and it's provided opportunity for newer upstarts to grow at the expense of many industry incumbents. One such upstart is Okta, which focuses on ["privileged identity management"](#) — ensuring that only the right people get access to data and applications within an organization. It's a fast-growing but small piece of the [whole cybersecurity pie](#), and Okta has quickly taken command of the segment.

Granted, there are some concerns with valuation here. Okta's market cap of \$13 billion is close to the total *expected* amount of spending on privileged identity management in a few years' time. Thus, a breather was more than warranted, but Okta continues to demonstrate its ability to scoop up the lion's share of its particular cybersecurity discipline. Recently reported second-quarter sales were up 49%, easily outpacing the average growth of cybersecurity overall.

And finally, Alteryx — another new one for me. I've owned big-data companies like **Splunk** for years, but Alteryx popped up on my radar this year as the data analytics industry consolidated, with Salesforce and Google's **Alphabet** making [big back-to-back acquisitions](#) early in 2019. Alteryx is still

here, though, and it's posting more than respectable results as it goes it alone. [Second-quarter sales surged 59%](#) compared with a year ago.

I don't plan to stop adding to these positions — and companies like them — anytime soon. Digital transformation is a phrase increasingly used by top management teams to describe the rapid pace of change at the organizational level around the globe. As digital systems are proving their worth, old legacy operations are getting updated or replaced at a rapid pace. Estimates vary, but research company **Gartner** expects global spending on technology to keep increasing in the mid-single-digits the next few years — recession or not — with enterprise software leading the charge, and by itself nearing \$500 billion in annual spending by the end of 2020.

Arbitrary numbers? Probably. But they illustrate the point that software is still growing so quickly, and there's plenty of room for disruptive upstarts to carve out a niche. Thus, I'm still a buyer on the dips in the above stocks. The valuations look silly, but their [high gross profit margins](#) and long runways look too enticing. I fully expect it to be a wild ride, but I have the time to wait.

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TICKERS GLOBAL

1. NASDAQ:BYND (Beyond Meat)
2. NASDAQ:GOOG (Alphabet)
3. NASDAQ:GOOGL (Alphabet Inc.)
4. NASDAQ:OKTA (Okta)
5. NASDAQ:SPLK (Splunk Inc.)
6. NASDAQ:TTD (The Trade Desk)
7. NYSE:AYX (Alteryx)
8. NYSE:CRM (Salesforce Inc.)
9. NYSE:IT (Gartner, Inc.)
10. NYSE:TWLO (Twilio Inc.)

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