



Investing in Cyber Security: A Beginner's Guide

Description

The demand for enhanced cyber security in the private and public sector has soared over the course of the past decade. Militaries around the world are working on beefing up their capabilities. The United States recently established the U.S. Cyber Command, making it one of the 11 unified commands of the Department of Defense.

This is one of the reasons I'd suggested that Canadians look to [invest in this industry last summer](#). The S&P/TSX Composite Index is thin on technology stocks compared to its U.S. counterpart. So, where should beginner's turn if they are looking for exposure to this growing market? Today, we are going to explore equities that fit the bill. But first, let's look at the broader cyber security market and its possible trajectory in the 2020s.

Cyber security in a bubble?

In late 2019, there were murmurs among industry watchers that the cyber security market was in a bubble. For one, the industry landscape grew saturated in the late 2010s. According to Strategic Cyber Ventures, more than \$5.3 billion was funneled into companies focused on cyber security in 2018. This was up from \$4.4 billion in the prior year.

"We are in this situation where there are just too many vendors and too few can be sustained," said Dave DeWalt, former CEO of **FireEye**. Oversaturation is a concern, but there is still massive investment being poured into this industry. Public spending and new regulations will also propel demand. The European Union's General Data Protection Program puts pressure on companies to invest in revamping their cyber security.

A recent study from Fortune Business Insights projected that the global cyber security market will reach \$289.8 billion by 2026. This would represent a CAGR of 10.6% from 2019 to the end of the forecast period. With that in mind, let's look at how investors can jump into this market.

Ways to invest in 2020

BlackBerry ([TSX:BB](#))([NYSE:BB](#)) stock suffered from major turbulence in 2019 in the face of earnings disappointments. Fears of rising competition were a factor in investors' souring on the stock after its second-quarter results were released. However, in October 2019 I'd suggested that investors should consider [buying the dip](#).

Shares of BlackBerry have climbed 14% over the past three months as of close on February 3. The company saw its revenue rise 19% from the prior year. This was powered by revenue from its cyber security business, which has received a boost from the integration of the recently acquired Cylance. It drove \$40 billion in revenue in the quarter.

The company is especially enticing as data breaches on mobile are expected to become a bigger threat this decade. This is a huge strength for BlackBerry, one that has scored it contract wins with the U.S. and Canadian governments in the past.

Absolute Software is a Vancouver-based company that specializes in endpoint security and data risk-management solutions. Its stock has climbed 23% year over year at the time of this writing. Shares have surged after it reported revenue growth of 6% in its fiscal 2020 first-quarter results. The company's Annual Contract Value Base rose 7% from the prior year to \$99.1 million.

In addition to its enticing growth potential, Absolute Software also offers a bit of income. It last paid out a quarterly dividend of \$0.08 per share, which represents a 3.2% yield.

For investors who are on the hunt for broader exposure, they can take the ETF route. **Evolve Cyber Security Index Fund** launched in September 2017. It seeks to replicate the performance of the Solactive Global Cyber Security Index Canadian Dollar Hedged. Some of its top holdings include the Israeli firm **Check Point Software**, the U.S.-based **Fortinet**, and the Japan-based **Zscaler**. Its shares climbed 25% in 2019 and have increased 7% so far in 2020.

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aocallaghan

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