



Warning: These Canadian Stocks May Crash

Description

The stock market is defying all expectations. Despite the considerable uncertainty that still exists, investors are shrugging off the pandemic. Over the past month, the **S&P TSX Composite Index** is up by 7%, and certain top Canadian stocks are hitting 52-week highs.

Hitting [52-week highs](#) in of itself is not an issue. It is a sign of positive momentum and can lead companies into blue sky territory. However, there are times when investors will want to remain cautious.

One sign that a company may be due for a pullback is when the 14-day **Relative Strength Index** (RSI) flashes an overbought signal. Typically, when a 14-day RSI eclipses 70, it is a sign the company is overbought and may be due for a pullback.

As of writing, there are two overbought Canadian stocks that are worthy of your attention – **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and **Real Matters** ([TSX:REAL](#)).

The best tech stock of the past year

I know what you're thinking: Shopify must be the best-performing Canadian stock of the past year. You'd be forgiven, as it has been among the best since its IPO in 2015. No, the top performing technology stock is Real Matters.

This high-flying tech stock is turning heads. Over the past year, the company's stock is up 277%! A \$10,000 investment in the company would be worth \$37,750 today. That is an impressive return in such a short period. Year to date, Real's stock has almost doubled – up 98% to lead the industry.

However, after the company's most recent surge it now has a 14-day RSI of 77.52. Over the past year, Real touched an RSI above 70 three times. Each time, the stock price dropped by double-digits in the month that followed. On the bright side, it quickly resumed its uptrend breathing through yearly highs.

Despite trading at a record high P/E ratio, it is trading at a reasonable P/S ratio of 3.5 which is below industry average. This is a [Canadian stock](#) you'll want to consider adding on a dip.

The best Canadian stock

Whereas Real Matters has been Canada's top tech stock of the past year, arguably no company has been more successful than Shopify. Up 3,500% since its IPO in 2015, a \$10,000 back then would be worth \$370,000 today.

It also continues to defy expectations. Despite the lack of profitability, Shopify has beat revenue estimates in every quarter since it went public. It appears analysts lack insight into the company's growth prospects. However, even as a Shopify bull and shareholder, I have a hard time with this Canadian Stock's valuation.

It is now trading at a record, 53 time sales — more than eight times the industry average and is among the highest ratios on the TSX. Historically, the company has been highly volatile and drops of 20% or more are not unheard of. Now that the company sports a 14-day RSI of 74.78, Shopify may be due for one of its pullbacks.

The company has been teetering on being overbought for the majority of the month of May. The sentiment will likely turn and investors looking to enter this top Canadian stock will have an opportunity to pick up the company on a dip.

A company doesn't stay in overbought status for long — eventually there will be downward pressure. For Shopify, sustained downward pressure usually results in double-digit losses. This is especially true given that Shopify's current price leaves little margin of safety.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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2. TSX:REAL (Real Matters Inc.)
3. TSX:SHOP (Shopify Inc.)

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