



TFSA Investors: Here's Why the Stock Market May Not Be as Expensive as it Seems

Description

If you're like many TFSA investors, you view the broader markets as pretty frothy at these levels. And while that may be the case for some stocks given high valuations and the new slates of risk brought forth by COVID-19, one must remember that with interest rates as low as they are (with the potential to go into negative territory), stocks may not be as expensive as traditional valuation metrics would imply.

TFSA investors need to remember that valuations are relative to the type of market that's been set up

With negligible (or negative) costs of borrowing, stocks from across the board could be due for some multiple compression over the next few years, as earnings recover from the coronavirus crisis and shoot higher thanks to the unprecedented magnitude of stimulus that will remain after the pandemic passes.

Moreover, excess liquidity may have nowhere else to go but the equity market, as risky assets become the only game in town for those looking to make a satisfactory return on their investment over time, given how unrewarding risk-free assets have become in an era of near-zero interest rates.

That's not to say that you should ignore traditional valuation metrics and pay up whatever price for a given stock, though. Valuation still matters. Just remember that valuations are relative to the type of market.

Central bank-backing is a green light for TFSA investors

With the U.S. Fed committing to no rate cuts over the next two years (and possibly beyond) and opening the door to negative interest rates should things get uglier with this pandemic, stocks across the board may deserve to trade at higher valuations, despite the insidious coronavirus and the unprecedented magnitude of socio-economic disruption.

Consider [Docebo](#) ([TSX:DCBO](#)), an up-and-coming, cloud-based, AI-levering, e-learning platform provider that's ridiculously expensive based on traditional valuation metrics alone.

Like **Shopify**, the stock has continued to roar higher amid the pandemic, bringing its traditional valuation metrics to new heights thanks to profound pandemic tailwinds. With lower-for-longer interest rates factored in, Docebo stock rightfully deserves to trade at a much more expensive multiple than most other stocks out there.

Docebo has an expensive valuation, but relative to its tailwinds and its peer group, DCBO shares aren't *that* expensive

At the time of writing, shares of the learning platform developer are trading at 16.4 times sales after more than tripling off its March bottom. On its own, Docebo looks absurdly expensive (especially for value-oriented TFSA investors) and ripe for a correction, but relative to most other Software-as-a-Service (SaaS) companies that have similar pandemic tailwinds, the stock looks quite cheap.

Moreover, when you consider the favourable environment made possible by a highly stimulatory fiscal and monetary policy, it becomes more apparent that a name like Docebo is one of many momentum stocks that could continue to defy the laws of gravity.

Foolish takeaway for TFSA investors

It's become that much [tougher to value](#) stocks with coronavirus-related uncertainties and an unprecedented amount of monetary and fiscal stimulus.

Pandemic headwinds that have plagued this market may be offset by such stimulatory tailwinds for most firms affected by COVID-19. And for firms like Docebo that view COVID-19 as a tailwind, they're positioned to get a double-dose of profoundly powerful tailwinds, making its high multiple more than justified, even though the high multiple makes the stock seem like a pie-in-the-sky speculation that'll ultimately end in tears.

Docebo has all the cards in the right place. While it's tough to gauge an intrinsic value of the name given the ever-changing market landscape, I'd urge TFSA investors to get some skin in the game today with a third position, with the intention of buying in two more chunks should Docebo find itself on the receiving end of another growth-to-value market-wide rotation.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:DCBO (Docebo Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Date

2025/08/19

Date Created

2020/06/23

Author

joefrenette

default watermark

default watermark