



Buy Alert: The One TSX Tech Stock That Will Predict The Market

Description

Stock markets recently hit new all-time highs after a peak-to-trough of approximately 1/3 earlier this year. Investor sentiment is mixed on the recovery. I am in the camp of market participants who believes this was a head fake rally. In this article, I'm going to use one Canadian technology superstar to further this idea.

Lightspeed

A high-flyer in the technology sector, **Lightspeed POS** ([TSX:LSPD](#)) is a [great example of this recent market action](#), in my view. The company's stock price and valuation multiple has swung wildly amid recent uncertainty. This lack of consensus on the future outlook for high-growth stocks has created a trader's paradise. The flip side of said paradise is a long-term investor's dilemma.

Business model economically prone

Perhaps the most significant driver of the instability in Lightspeed's stock price is the company's business model. Being in the point of sale (POS) software and hardware space right now is obviously unnerving for some investors. Lightspeed's core customer base is composed of mainly small- and medium-sized enterprises (SMEs). These businesses have generally speaking been hit hardest by government-mandated closures due to the Covid-19 pandemic.

Accordingly, I see two large unanswered questions right now for Lightspeed in particular. (Of course, these apply to many similar companies, whether they're in the tech sector or otherwise).

The first is around how much medium to long-term structural damage will be done — or has already been done — by this pandemic. This of course, is a core determinant of whether one believes the recent rally in stock prices is truly representative of the recovery in the broader economy.

As I've stated initially, I don't buy it. I think structural damage has indeed been done. Further, I believe this damage is yet to be fully reflected in valuations. This is a major problem for investors like me.

The second critical question I think investors need to ask is around the speed and shape of the recovery. We've seen the "letter soup" arise again. Investors and analysts have been discussing various letters that will represent the shape of the economic recovery.

Whether one believes this will be a "V-shaped," U-shaped" or "L-shaped" recovery does indeed matter. I am of the belief that this economic recession does have the potential to last much longer than many currently think.

Also, I don't think we've yet seen the market reflect this sentiment in valuations. Thus, this market volatility is, in my view, foreshadowing of a future elongated "U-shaped" recovery. This may take years to form.

Where to go from here

Lightspeed is an interesting case study to look at for investors seeking a way forward. Government and central bank stimulus will likely continue. Lightspeed's customers may continue to pay their bills until they can't anymore. The low fees of Lightspeed's platform are a plus.

We may have already seen the bottom, in which case, I'm completely wrong. For those more cautious on economic performance moving forward, I'd recommend at least hedging exposure today.

The retail sector is likely to be hardest hit. I see Lightspeed's stock price as a quasi-"canary in the coal mine" type of signal. Betting on a quick recover right now is just too close to gambling in my view.

Staying cautiously invested, with hedges, is my preferred methodology today.

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