Twitter Hack: Are Tech Stocks Staring Down a Correction?

Description

Tech stocks have been pulling back this week, despite (or because of) a fresh injection of vaccine hope that buoyed the markets. But could the retreat be a sign of something worse to come? While the TSX climbed to March highs on a potential vaccine breakthrough, it hasn't been enough to keep some Canadian tech names in the green for the week.

Let's browse the tech tickers and see how to play this high-momentum space right now.

Overbought tech stocks face a day of reckoning

Social media stocks have likely peaked. This makes them key targets when taking names off the table. **Facebook** has seen one public relations calamity after another, culminating in an advertising exodus. More recently, a number of verified high-profile **Twitter** (NYSE:TWTR) accounts were apparently hacked on Wednesday. The security breach raises serious questions for a platform whose most influential member is arguably the U.S. president.

Needless to say, the thesis for holding onto those Twitter shares has been degraded by this serious breach of privacy. The case for buying Twitter stock was already weakening, weighed upon by the same social forces buffeting the likes of Facebook. Between questions of foreign influence and the cash drain from disgruntled advertisers, social media stocks look like liquidity-raising ballast right now.

Meanwhile, investors may want to trim overbought names such as **Netflix**. This stay-at-home hero certainly satisfies a mid-pandemic growth thesis. However, with expectations high ahead of its next earnings report, Netflix shareholders could find themselves easily disappointed. Paired with Facebook's advertising woes and the Twitter hack, American tech stocks could be in for a bumpy ride. But could the contagion spread to the TSX?

These Canadian tech stocks fell this week

Tech stocks tend to move quickly are already starting to pull back. Some declines have been swift:

Twitter fell 4% after hours following the hack. Other tech names have been experiencing slower bleeds this week: **Shopify** is down 5.6% for the week at the time of writing. **Docebo** retreated 3% in the same period, while **Kinaxis** saw a five-day loss of 8%. These kinds of moves could signal the start of a broader retreat in tech stocks.

Docebo is arguably one of the less well-known names to break out, with 160% share price growth in just three months. But like a few of Canada's fastest-appreciating tech names, Docebo is being pushed higher by the pandemic. Unfortunately, this element correlates certain businesses to bad news. A vaccine breakthrough could see a pullback. Conversely, a spike in cases could advance these names. In summary, tech stock rallies are now inversely proportional to vaccine breakthroughs.

In any other year the tech stock losses this week would be big moves, worthy of a fresh round of headlines. In the current climate, it looks more like the markets are beginning to expect a pullback in tech stocks. Given the uncertain economics of 2020, a second leg down could become priced in. If so, take heart: This could soften the impact of a market crash by gradually correcting names that have been run too far by bullish investors.

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Date
2025/09/30
Date Created

2020/07/17
Author
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