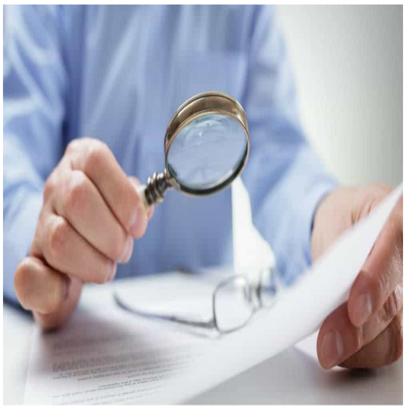

2 Expensive Stocks I'd Avoid Before a Rotation Out of Tech Stocks

Description

Whenever you have a stock that turns into a multi-bagger in a matter of months, you should start thinking about taking at least a bit of profit off the table. While there's a possibility that you could miss out on further gains, or perhaps a rally that causes shares to double again, there's also a chance that you could stand to surrender a chunk of the gains to Mr. Market in a violent reversal of momentum.

While I am a believer that newfound tailwinds and positive developments are worthy of abrupt multiple expansion, investors ought to be careful that euphoria from a rally doesn't cause one to ignore the valuation. Whether on a historical or relative basis, valuation always matters. And if a stock has run above and beyond your original gauge of intrinsic value, it may be time to do some trimming.

The following two Canadian stocks, I believe, are starting to look way too expensive and could leave new buyers at risk of facing amplified downside if a sudden reversal of momentum were to occur. Now, the following stocks may have firms with wonderful business models and unprecedented tailwinds, but the valuation, I think, has grown a tad too frothy for my liking as a value investor.

Shopify

To say **Shopify** (TSX:SHOP)(NYSE:SHOP) is a wonderful business would be a vast understatement. It's arguably the second-best e-commerce company on the planet behind **Amazon.com**. The stock has continued to defy short-sellers and value-oriented investors thanks in part to the iconic founder Tobias Lütke, who somehow keeps finding a way to raise the bar to justify a higher multiple.

The company has been firing on all cylinders, and to the awe of many, it not only demonstrated resilience amid the coronavirus crisis; it also rode high on tailwinds produced by the crisis. There's no question that the company is deserving of a considerable amount of multiple expansion over the years, as the fundamentals keep getting better and better. Lütke and company put churn concerns to rest, and short-sellers are now licking their wounds, as Shopify went on to soar above and beyond the $1,000 mark to become Canada's most valuable company by market cap.

As you can tell from my tone, I'm a huge fan of Shopify the business. What I'm not a fan of is the valuation. Sure, the stock has never been anything short of absurdly expensive, but with a 64 times sales multiple, the stock could get cut in half and still be more expensive than most growth stocks out there on a price-to-sales basis. In the meantime, Shopify will continue killing it, as it profits off the continued shift to e-commerce that's been profoundly accelerated by government-mandated shutdowns and quarantines.

Docebo

Docebo (TSX:DCBO) is another high-flying tech stock that's been benefiting from pandemic tailwinds this year. The e-learning kingpin is largely unknown by Wall and Bay Street, but that could change, as the demand for learning management system (LMS) software increases in conjunction with the work-from-home trend.

I've been pounding the table on Docebo in the past, but with shares more than tripling in a matter of months, it may be a wise idea to take some profits, because a reversal in momentum for the stock and the broader tech industry could have the potential to be vicious.

Docebo shares, alongside most other recent winners, have taken a small dip in recent weeks. Although the stock is cheaper than it was last week, it's not significantly cheaper, with shares at 18 times sales and 28.5 times book value. For now, Docebo will continue making the most of its fortunate positioning in the niche LMS industry. And while I'm a fan of the long-term growth story, I'd prefer to wait for a meaningful pullback before I'd consider buying the white-hot stock that's exhibited stronger momentum than the likes of Shopify of late.

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2. TSX:DCBO (Docebo Inc.)
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joefrenette