Shopify Stock: Will This Tech Bubble Burst?

Description

There might be a technology bubble in the market. These stocks have done better during this global pandemic than most other sectors. We are looking at outrageous price-to-earnings ratios that may not reflect actual future growth.

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This is all terrifying for investors who have substantial new holdings in technology stocks. If there is a bubble in technology due to this pandemic, your investments may not be safe. In fact, you may be underinvested in the current stock market losers and overinvested in the current winners.

The pandemic isn't going to last forever. Most of the companies that are currently losing money are going to grow their revenue streams back to normal. While there are exceptions, when this happens, the market may balance itself out in a way that wipes out your current gains or losses.

That being said, is your retirement portfolio diversified enough to weather the correction in the market?

I'm not saying to sell your technology stocks. I'm hesitant to do this myself, and it might be due to over-optimism in the current trajectory of the market. Nevertheless, it is something to think about over the next few months.

Look at the price-to-earnings ratios

Before you decide to continue investing in technology based on momentum, take a moment to look at the price-to-earnings ratio and ask if you are gambling.

For example, take **Shopify** (TSX:SHOP)(NYSE:SHOP) stock. Many analysts don't believe that Shopify can sustain its current valuation, even if the COVID-19 pandemic lasts throughout the year. They could be wrong, but can everyday investors really afford to take the chance on a company whose valuation might not reflect its actual growth potential?

It is a tricky question to answer. On the one hand, investors might be missing out on some great capital gains if the stock price does continue to climb. Then again, the losses might be more painful than missing out on that cash.

One way to determine if the stock may be too expensive to buy is the price-to-earnings ratio. Growth stocks tend to have higher price-to-earnings ratios, because investors are pricing in high future growth, boosting this metric. The gamble is that this future growth is theoretical.

Stay fearless but cautious and conservative with your investments. Don't go all in, and certainly don't risk money that's going to make you lose sleep at night.

Try dollar-cost averaging in the stock market

Dollar-cost averaging is a great way to weather the typical rises and falls in the stock market. When you know a company is going to be around for the next 10 to 20 years, bailing at the first sign of market turbulence isn't the answer.

There were many profit opportunities that we might have missed in March 2020 if we reacted out of fear. The answer was to actually buy more shares when price levels began to level off. If you did this, you would be looking at fantastic returns today.

That's the power of dollar-cost averaging. Sure, you might have purchased some of your positions at higher prices before the sell-off. Then you were looking at losses. Instead of selling, you could have added to your positions strategically.

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That way, when the market rebounded, you wouldn't have just been regaining your initial investment. You would have been earning cash. Dollar-cost averaging reminds us that the trick to making money in the stock market is to buy low and sell high.

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