Facedrive or Lightspeed: Which Stock Is a Better Buy Right Now?

Description

It's a strange time to be an investor, that's for sure. Pundits have written reams of articles looking at the weird disconnect between the markets and the actual economy, for instance. But one area that has seen sustained activity is tech stocks. It may have been hard to predict last year which areas would skyrocket if a pandemic were to break out. But this high risk, high reward area is still crushing it in 2020.

Incredible returns – but are they sustainable?

Facedrive (TSXV:FD) is up by an incredible 796% in the last 12 months. A socially responsible rideshare app, this is a new tech name that also satisfies a green economy play. Users can hail hybrid, gas-powered, and electric rides. The market clearly thinks that this stock is the greatest thing since sliced bread. After all, if there's upside in building electric vehicles, how much more upside must there be in simply borrowing them?

A lot, so far. But this isn't looking like a name to buy and hold. With a P/B ratio in the hundreds – around 374 times book – a value-focused investor shouldn't glance twice at this highly speculative stock. Never mind that revenue grew by 1,762% in 12 months. This performance would be incredible if it were sustainable. Still, for a gig economy play with massive momentum, this is a compelling name.

A better buy for sustained upside

I recently compared **Lightspeed** (TSX:LSPD) to **Docebo**. Last week I wrote, "While this name has exhibited strong upward share price momentum (Lightspeed is up +50% in the last three months), it's negative year over year. Therefore, investors should decide whether they liked Lightspeed for a 7% dip last summer. While its balance sheet is squeaky clean, growth by acquisitions could be limited."

Given that this is a high momentum space, it's perhaps not surprising that the figures have changed in a week. Lightspeed is now just about positive year-on-year. Most significantly, for investors who had correctly timed the bottom for Lightspeed, they would now be sitting on returns of 320%. Lightspeed is looking like a more solid longer-term alternative than Facedrive.

Investors should look at the trends of these names. Facedrive is up 805% in 12 months. But across the last three months, that share price growth average shakes out at 111%. Still good, but not completely unique in the topsy-turvy markets of 2020. However, the real kicker is that in the last four weeks, Facedrive's share price growth rate has slowed to 16%, suggesting a plateau. Meanwhile, Lighstpeed is still climbing, up 31% in four weeks.

However, investors bullish on tech stocks may want to pencil in November for a potential downturn. The U.S. election could be especially frothy for this sector. Consider, for instance, a potential democrat antitrust stance aimed at reducing the market power of some of tech's biggest names.

Other event-driven weakness is likely to come from vaccine advances that undermine the stay-at-home growth thesis. Tech investors should therefore keep some cash on hand this fall to bag some bargains.

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