3 TSX Tech Stocks to Handle With Caution

Description

Growth stocks are coming in for a bashing, as the market stumbled into September. It's been a glum end to the summer, bringing a veritable bloodbath of red ink. Some pundits have been quick to call the selloff, which began as a limited tech stock correction, a market crash. But while we're not quite at March levels of fear, the sentiment in the markets has undeniably shifted, as we head into the new season.

Summer's tech stock trends turn toxic

Facedrive aims to provide a ride-hailing service based on an environmentally friendly fleet. It's a cute idea and has seen a lot of investor interest. But its momentum — in both directions — is becoming increasingly dangerous. Up by around 650% this year, the name has pulled back sharply of late. Facedrive has ditched about 25% in the last four weeks. And that's bad news given the week the markets just had.

The gig economy is a precarious investment area at best. It is also one that is rife with questions of an ethical nature. Then came this year's findings of the Union of Concerned Scientists. The report suggests that the environmental impact of ride-hailing companies is almost 70% worse than traditional transport modes. It estimates that the environmental toll of outfits like **Lyft** and **Uber** is significantly greater than from normal travel.

Dye & Durham is a pure play on the digitalization of legal services. It's climbed 53% in just four weeks. However, this name has ditched 11% this week, making it a dog of a stock. This is one of the rare occasions when it might be worth realizing a loss and taking the hit. This name is unlikely to improve in the current climate. Down 13.9% off its month-long high, Dye & Durham is a liability to a stock portfolio.

In any other recession, speculative growth investing would be deemed inadvisable. And while value opportunities can be found in any downturn, the markets in 2020 have been turning on a dime. **Lightspeed POS** is down 11.8% this week. For all of the hullabaloo about this stock, Lightspeed has seen an insipid 16% growth year on year. Low-risk investors should look elsewhere.

Expect a rough fourth quarter for tech stocks

Personally, I don't think any of these names brings anything really radical to the table. Most of this has been done before. Facedrive comes across as a reworked Uber with a "go green" gimmick thrown in. Dye & Durham is an even more vanilla version of **Descartes Systems Group**. Lightspeed is an uninteresting take on a space better represented by **Shopify**. In short, there are stronger plays out there in more established names.

In terms of momentum, it's probably safe to say that the current economic environment does not support the type of growth investing that erupted this year. Investors would be better off looking now towards value stocks, as the long road to a post-pandemic recovery begins. Now is not the time to be risking capital for the sake of a few reworkings of growth trends that are quickly going out of fashion.

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