Tech Stock Sell-Off: Is the Worst Over?

Description

Is the tech stock sell-off over or should we still be bullish on these growth stocks? Technology stocks soared to unbelievable price multiples this year as investors climbed into more COVID-19 friendly stocks. In addition to more obvious winners like **Zoom** and **Shopify**, stocks like **Apple** and **Tesla** also grew market capitalization to unbelievable valuations.

Arguably, Apple and Tesla would be more sensitive to increased unemployment and a weakening economy while gaining less directly (if at all) from stay-at-home trends and social distancing.

What goes up must come down eventually when clear asset bubbles form. While we can't say for sure that technology is overpriced on the stock market, these stocks are showing all the signs that the price run may be coming to an end.

If you are hoping for a rebound in technology stocks after the dip, you could still be in luck. Then again, what we have witnessed this past week could be a downtrend to correct a bubble in technology stocks relative to other assets like utilities and value stocks.

Here are two technology stocks on the **Toronto Stock Exchange** which may be overpriced after the COVID-19 volatility this year.

Open Text

Open Text (TSX:OTEX)(NASDAQ:OTEX) stock fell to a 52-week low of $42.30 before surging to a 52-week high of $64. After the technology stock sell-off, Open Text is trading for around $56 per share at the time of writing.

Compared to many technology stocks that have come out ahead during the COVID-19 health crisis, Open Text is relatively less overvalued. The price-to-sales ratio is only 3.78 and the price-to-book is 2.94. By comparison, Shopify has a price-to-sales ratio of 54.27 and a price-to-book ratio of 24.79.

Higher price-to-sales and book ratios typically reflect higher revenue growth projections for a particular company. Sometimes, however, these projections can under or overestimate the future value generation of the company. Open Text could have higher future growth in the next few years than the price-to-sales and book ratios indicate.

Kinaxis

Kinaxis (TSX:KXS) stock may still be too expensive on the TSX. This tech stock rose from a 52-week low of $78.40 to a high of $224.98 this year. At the time of writing, the tech stock is selling for $187.49 per share.

Looking further into the valuation statistics, you'll see that the price-to-sales and price-to-book ratios are still high. While the stock might not be as expensive as Shopify according to these measures, technology investors have already priced in a lot of future growth at Kinaxis.

Kinaxis has a price-to-sales ratio of 17.72 and a price-to-book ratio of 14.31.

Again, technology growth stocks tend to have higher price-to-sales and book ratios. Nevertheless, seasoned analysts look for stocks selling at high price multiples to identify bubbles. If we do have a deflating bubble in the technology industry today, Kinaxis may still have a distance to fall before settling.

Should you buy tech stocks now?

Technology stocks could continue to soar throughout the rest of the year. On the other hand, recent downward volatility could also be warning shareholders that technology stocks have hit highs that they can't sustain.

It's possible that the market overvalued technology stocks as money flowed out of COVID-19 sensitive companies. Further, money flowing out of technology stocks now could be signaling a correction in some of these undervalued firms.

There are great stocks on the TSX that didn't fare so well. Depending on how well these firms are doing coming out of the COVID-19 crisis, these assets may be safer to buy now for the long-term than technology.

The trick is to diversify, invest slowly, and be comfortable making slow progress. There are no get rich quick schemes in life. Adopting a long-term mindset is your best strategy to build your retirement wealth.

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2. TSX:KXS (Kinaxis Inc.)
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Date
2025/07/22
Date Created
2020/09/13
Author
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