Selling Shares? Start With Tech Stocks

Description

Last week was a bad one for tech stocks. It started well, with an historic two-for-one stock split. But the **Apple** and **Tesla** buying frenzy flipped over the next day into a selling spree. There was a bit of a bounce, but the sell-off continued into the week. The cause may have been somewhat indistinct to analysts, but the overall risk was the same: overvaluation is clearly dangerous in the latter half of 2020.

Which tech stocks should investors sell?

One of the problems with tech stocks is that they're of uneven quality and purpose. Take a top e-commerce name like **Shopify** (TSX:SHOP)(NYSE:SHOP). Now, there is no arguing that Shopify is overvalued. While it may have further to run — and probably does — it's overvalued, nevertheless. But this is a quality name, highly diversified, with low overheads and a clean balance sheet. It's established and worth holding.

Now look at something like **Facedrive** (TSXV:FD). On the face of it, this looks like an ethical play in the **Uber** patch. But it's been argued that the ride-hailing space isn't any more environmentally friendly that normal transport. And while Facedrive aims to do something a little different than its competitors in that regard, there's still the general flimsiness of the gig economy to bear in mind.

The real no-no, though, is that valuation. In and of itself, overvaluation does not necessarily equal a stock to sell — not if it's backed up with some solid indicators of quality. Facedrive is somewhat lacking in that regard and has also pulled back 21% in the last four weeks. This is a speculative play, devoid of the characteristics that make Shopify a stock to hold for the long term. History may say otherwise, but right now it's at the wrong end of the risk spectrum.

Some tech names are worth holding

The fact is that the majority of overvalued names are worth holding. Many stocks that have been experiencing bull runs this summer are quality businesses. That's not necessarily the issue, though. The problem comes when future growth does not align with the asking price for these kinds of stocks.

The other issue is that overvaluation can cause panic selling at the drop of a pin, no matter the name.

This situation comes about when investors aren't too discerning about which stocks they hold in a portfolio. A common pitfall of momentum investing, overlooking stocks as actual businesses can also add to the disconnect between the markets and the economy. It's easy to see names such as Shopify as tickers. But it's also dangerous, because seeing shares in that way makes it so much easier to cash them in.

That's why investors looking to sell some shares may want to take their cue from valuations, but make decisions based on quality. At the end of the day, tech stock investing takes two distinct forms. Investors can either buy into functional names, such as **Descartes Systems Group**, or they can bet the farm on speculative plays. Given the sell-off in tech stocks, though, only the former strategy looks tenable right now.

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1. Investing
2. Tech Stocks

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