The U.S. Stock Market Plummets But Canada Keeps its Cool

Description

September hasn't been an excellent month for the stock markets. Both the TSX and NASDAQ saw a sharp plunge at the beginning of the month. Though it was not as sharp as it was in March, investors are already expecting another market crash, and downward movement looks suspicious.

Though both the U.S. and Canadian stock market saw valuation fall, there was a major difference in scale. The S&P/TSX Composite Index only fell by about 3.58% at its worst, whereas the NASDAQ Composite dropped 10%. The Canadian market managed to hold itself pretty well compared to the NASDAQ and even the NYSE composite (which fell by 4.43%). And the reason is the same here as it is across the border: tech stocks.

Tech sector

Technology was the star sector of the March crash. It was the first sector to recover when the market crashed, and most heavyweight stocks in the sector started growing at an unprecedented pace. It might have been the investor sentiment and "concentration," since investors clogged the most resilient sector after the crash.

Whatever the reason was, tech stocks led the recovery of the TSX, and now it seems they might be the trigger to the next crash. The NASDAQ is tech heavy. Just one of its 10-largest securities (by market cap) isn't a tech company. This sector-wise concentration is one of the major reasons why the NASDAQ's drop was in double digits.

At home, the situation is different. Only one tech company is in the 10-largest securities on TSX (**Shopify**). The financial and energy sector make up the bulk of the stock market here. This is why, even though the tech capped index dropped by 9%, it only brought the overall market down by 3.58%. And even that's mostly recovered.

Tech stock

The recent drop in the price of tech stocks means that many overpriced growth stocks in the sector are a bit less expensive right now. One stock that's not as overpriced as others and currently available with a 7% discount is **Open Text** (TSX:OTEX)(NASDAQ:OTEX). The aristocrat, with a seven-year history of increasing dividends, is presently offering a low yield of 1.58%, but the dividend-growth history is decent enough.

A better reason to consider this company is its capital-growth potential and consistency of growth. It showed a steady increase in the past five years, and the five-year CAGR right now is almost 22%. It's enough to double your $10,000 investment in under four years.

Despite its current drop in valuation and the fact that this stock didn't take off the way others in the sector did after the crash, the stock is overvalued. Its price to earnings is about 50 times, and the price to book is 2.9 times. If you believe that a full-fledged crash is on the horizon, you may want to wait a bit before buying.

Foolish takeaway

If the market as a whole is due for a massive correction, tech stocks might be the first in line to get knocked down to a fair valuation. Recovery in the energy sector is painfully slow; the real estate and financial industry are probably recovering a bit more "naturally" (their stock growth matches their earnings in most cases). Tech was one major exception, and a sharper fall in the sector might be nearing.

CATEGORY

1. Dividend Stocks
2. Investing
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