September Correction 2020: 2 Hot Stocks That Need More Time to Cool Off!

Description

This piece will look at two Canadian stocks that I wouldn't be a buyer of as the market looks to turn against the biggest winners of the first half. While the momentum could continue over the near-term, if this correction is to end here, the risk/reward looks unfavourable from a longer-term perspective and think one could risk overpaying for many years worth of growth right off the bat.

Shopify (TSX:SHOP)(NYSE:SHOP) and **Docebo** (TSX:DCBO) are two outstanding Canadian tech kings that have enriched investors who stood by them through the volatile first half. I'm a huge fan of both businesses and think the fundamentals are as sound as ever. That said, the only thing that concerns me is the valuation of both companies.

Is a correction really a "correction" if a recently doubled or tripled stock falls by just 10%?

Docebo stock recently pulled back 22% amid the September sell-off, yet shares are still up over 270% since March. Docebo is technically in bear market territory, but compared to the run-up into the pullback, I hardly consider the plunge even to be a correction. Similarly, Shopify remains up around 170% after its latest "bear market" pullback. I'm a raging bull on Shopify and was pounding the table on the name for most of the year. But as someone wise once said, even the best business in the world can be a sell if the price isn't right.

Both Shopify and Docebo are riding high on pandemic tailwinds. Shopify's business is accelerating at an unfathomable rate, and e-learning up-and-comer Docebo is making a massive name for itself, after winning big-league clientele amid this pandemic.

At the time of writing, shares of Shopify are trading at a staggering 52.2 times sales. While Shopify rightfully deserves some multiple expansion after its recent odds-defying quarters, I'd urge investors to draw the line of the price they'd be willing to pay and not just give whatever price Mr. Market asks for at any instance in time.

As for Docebo, shares trade at 17.7 times sales, which, while far cheaper than Shopify's nosebleed valuation, is still a tad on the frothy side and could be at risk of pulling back further alongside the broader tech-driven sell-off that could continue through to October and November.

Profound tailwinds, but are the valuations even more profound?

As this pandemic drags into 2021, both Shopify and Docebo will continue to feel strong tailwinds at their back. But with expectations calling for more incredible quarters, I'd say both companies may be in danger of becoming victims of their past success. Investors should be cautious following epic rallies driven by substantial multiple expansion.

While both Shopify and Docebo stock could easily bounce back from this rut going into year-end if this isn't the end, I'd say it's only prudent to take your principal off the table if you're one of many investors who've already doubled or tripled over the past few months. In the face of a vicious sell-off, you'll feel much better playing with the house's money, rather than seeing your gains wither away.

Foolish takeaway on white-hot shares of Shopify and Docebo

Yes, both Shopify and Docebo are among the hottest on the **TSX Index** of late.

But unless you can justify paying 18-60x revenues for a firm, you could unknowingly be playing the game of greater fools. Just because an early-stage growth stock is hard to value doesn't mean you should not even attempt to evaluate it and pay any price for momentum.

If you're keen on getting exposure to either Shopify or Docebo, I'd recommend only nibbling here as you look to scale into a full position on the way down. Personally, I'll be sitting on the sidelines until the broader appetite for speculation has a chance to die down.

Stay Foolish, my friends.

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