



How to Play a Hot Tech Stock IPO Market

Description

South of the border, the tech stock IPO party thunders on. The TSX has seen its own rash of names hit the headlines, too. From **Lightspeed** to **Nuvei**, the new names available to tech investors are almost endlessly tantalizing. But how safe are such investments?

Navigating a hot tech stock IPO market

The surge in IPO activity this year can generally be explained by two things: faltering economies and a tech stock bull market. Tech outfits are looking at the boost afforded to similar companies by the very specific set of circumstances cooked up by the pandemic and seeing opportunities. And as the very same public health crisis threatens to make mincemeat of this decade's economic outlook, extra liquidity is understandably appealing.

But is a bubble being pumped up? Signs of an overvalued tech stock space are already evident in abundance. There have been two major pullbacks in tech stocks already this year. The first coincided with a [potential vaccine breakthrough](#) from **Moderna**. The selloff saw **Shopify** — a key stock emerging as a bellwether in this space — quickly lose 12%.

Then same thing happened again when **Tesla** and **Apple** offered stock splits at the same time. Tech stocks sold off *en masse* as investors balked at their overvaluation. The selloff quickly spread into other areas, blanketing North American stock markets with red ink. Was the selloff justified? Almost certainly, since the disparity between the markets and the economy means that equities are still ripe for a correction.

Avoid the overvalued tech stock bandwagon

Tech stocks are therefore now at risk from two very tangible threats. A vaccine will likely spell the end of the pandemic and the mutant markets that it has created. This will be anathema for tech stocks, which have thrived in a locked-down social environment. The other threat to tech stocks comes from their overvaluation itself.

In other words, tech stocks are at risk from selling off not only from vaccine breakthroughs, but from the residual bullishness of the summer. That's bad enough on its own. But the new IPOs hitting the market could even make the situation worse. These new listings are encouraging bullishness right when the thesis for pandemic-focused tech stock growth should be heading into retirement.

Match longer-term growth with value

Of course, with society moving online, the process of digitalizing businesses will [remain a growth industry](#) for some time. But aside from the conversion side of things, tech businesses are also a breeding ground for sound fundamentals. Overheads are usually low in this space, with less emphasis on real estate and more on automation. That makes for a compelling growth thesis in itself.

Names like **Descartes Systems Group** stand out for a safer play in the tech stock space. A diversified entry into the logistics sector, Descartes shareholders enjoy exposure to shipping with less of the risk carried by individual couriers. Investors also gain wide-moat access to business-to-business e-commerce networking, but with less of the hyped-up fundamentals of some other overvalued tech stocks.

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