2 Overhyped Stocks You Might Want to Avoid

Description

The current darlings or high-flyers on the **S&P/TSX Composite Index** are mostly from the information technology sector. While the weighting of tech equities is only 9% of the total index, it's the best-performing sector thus far in 2020. The TSX is losing by 3.83% year-to-date, but the sector is ahead by a whopping 44.31%.

Leading the advancers is none other than e-commerce platform **Shopify** (TSX:SHOP)(NYSE:SHOP). It makes you wonder whether the tech stock is winning because of popularity. You can say the same for **Facedrive** (TSXV:FD), as it's a novelty in the ride-sharing space. With the hype surrounding the companies, you might want to avoid both stocks.

Very high valuation

Shopify is a Canadian success story. Brick-and-mortar merchants can't hold a candle to the largest publicly-listed company on the **TSX**. Many are riding on the platform to peddle their wares online. The tech stock has a magnificent run amid the pandemic. The year-to-date gain is 173.73%.

No company has achieved a dominant competitive position in the small and mid-sized business industry than Shopify. The adoption across the e-commerce landscape is accelerating at blinding speed. Give credit to the founders for the impeccable execution of the business strategy.

But *should* you buy the stocks on hype? Some analysts say investors are paying for future growth. Despite the strong tailwind, the income streams are not predictable. The valuation seems way too high, if not more than 20x revenue.

Nonetheless, Shopify has solid growth potentials. It could become the Retail Operating System, according to **Morgan Stanley** analyst Keith Weiss. Still, now is not the time to buy the stock.

Eco-friendly

Facedrive is more than a thousand dollars cheaper than Shopify. You can still bet your money and not worry about incurring significant losses. The shares of this $1.1 billion ride-sharing platform are up 435.7% year to date. However, the stock is sputtering after peaking to $24.92 on July 10, 2020. The price is down 50.6% since then.

The company runs on the “people-and-planet first” theme. Facedrive is attracting attention because it’s the first to offer green transportation solutions in the Testing-as-a-Service (TaaS) space. The app users can choose to ride on electric vehicles (EVs), hybrids and conventional cars. You can even plant trees along the way.

Facedrive’s mission is to transform ride-sharing into a more carbon-neutral undertaking and not contribute to pollution. I won’t mind investing in this tech stock for the hype because it’s incredibly cheap and eco-friendly. The business should endure given the need for a cleaner mode of transport.

It should be interesting to see the Facedrive’s interim financial statements for the period ended June 30, 2020. The company will release the statements, along with the Management Discussion and Analysis (MD&A), on October 13, 2020.

Rooted in reality

There’s plenty to look forward to regarding the growth potentials of Shopify and Facedrive in 2021. However, investing is not a popularity contest. It therefore makes sense to review the financial performance to see if the stocks’ stratospheric rise is not all hype. Meanwhile, I could skip the e-commerce platform and consider the ride-sharing app.

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1. Investing
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TICKERS GLOBAL

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2. TSX:SHOP (Shopify Inc.)
3. TSXV:STER (Facedrive Inc.)

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Date
2025/08/16
Date Created
2020/10/09
Author
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