



WARNING: This Hybrid Stock Market Hides Overvaluation Danger

Description

The hybridized stock market spawned by multiple black swan events has continued to surprise and challenge investors this week. Equities have become a uniquely complicated tangle of theses and trends. But, at heart, what's going on is a tug-of-war between growth and value stocks. On one side of the line is momentum; on the other: recovery potential. And the two teams are vaccine hopes and tech stocks.

A stock growth trend with limited shelf life

This is a generalist take, to be sure. There's more at work in the markets than a pitched battle between the likes of **Moderna** and **Shopify**. But this ongoing battle for the uptrend typifies the [unique mix of uncertainties](#) at work in the personal investment environment right now. It's a situation that will likely last only as long as the pandemic. And that could spell trouble for growth investing.

Indeed, some names, such as **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)), are rapidly approaching their estimated high price targets. By looking at consensus price points, this tech stock in particular has negligible upside potential. At the time of writing, Lightspeed's price tag of \$70 now doesn't have far to go before it hits its high target of \$71.50. On the contrary, a more reasonable target of \$58 shows that Lightspeed actually has more downside — around 17%.

There are dangerous factors at play in the markets. For instance, fiscal stimulation is likely to be a hot potato this winter. This is especially the case in the United States. For instance, last Thursday saw Secretary of the Treasury Steven Mnuchin yank a major lifeline from small and medium businesses. By ultimately laying subsequent fiscal responsibility on moneylenders, this action could effectively sabotage Democrat efforts to stabilize the U.S. economy.

Growth stocks are becoming dangerously overvalued

It might not have impacted the news cycle too heavily yet. But it's the kind of development that could factor higher in December. Market selloffs have been precipitated by such moves before. Of course,

sector selloffs can bring rewards for eagle-eyed market investors. But they can also spark [sudden contrarian buying](#). In fact, with more vaccine bullishness likely on the way, both recovery stocks and riskier assets alike could see rallies. But are they to be trusted?

Cannabis stocks in particular have been seeing some extra froth of late. Top cannabis pick **Village Farms International** has been displaying particularly steep upside in recent weeks. While there has been a lot of oscillation in these names, Village Farms nonetheless has added 104% in the last four weeks of trading. Indeed, this week alone saw the veg and pot grower rack up an average share price growth of almost 30%.

With high-risk assets and work-from-home tech stocks rising this week, it's clear that growth investing is still in vogue. Just look at Lightspeed's share price, rocketing 21% in the last five days. Overvaluation could come back to haunt these names in the near future. Indeed, Lightspeed's P/B ratio of eight times book shows that even newer stocks in the digitalization space have already become top-heavy.

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