New Investors: Buying Tech Stocks Doesn’t Have to Be High Risk

Description

A newcomer taking their first foray into tech investing might be put off by steep prices and a wobbly growth thesis. While vaccine breakthroughs might be helping to drive market bullishness, the scene is being set for a decline in tech stocks generally. The simple reason for this is that an end to the pandemic will shoot down the momentum driving the work-from-home growth thesis.

The new lockdown in Toronto, Canada’s most populous city, provided an opportunity to revisit this thesis, though. Earlier in the week, I took a look at **Shopify** verses **Amazon**. I compared some of their vital stats and decided that Amazon has better long-term buying qualities. But I also concluded that Shopify could have steeper upside in the near term.

Weighing high-growth tech stocks

Stocks that satisfy the work-from-home thesis, such as **Docebo** (TSX:DCBO), ran into overvaluation fears this year. The result was an uptrend highly vulnerable to vaccine rallies. Shopify has seen several selloffs this year as a result of vaccine breakthroughs, for example. However, the e-commerce trend is one that existed before the pandemic and will almost certainly outlast the current health crisis.

If steep upside appeals, investors may wish to keep an eye on December’s coming glut of tech IPOs. From Airbnb to Roblox and DoorDash, investors are about to be handed a fistful of ground-level opportunities. By getting in at the ground level, investors have a route to bigger wins over a longer time period.

Investing in Docebo stock is therefore something of a mixed bag. This is a strong buy for near-term gains, for instance. In 12 months, the general estimate for total returns could be in the 300% range. This far exceeds the expected returns for the Canadian software, which is around the 28% mark for the same period. Docebo is also a healthy stock, with a clean balance sheet. But this is by no means a value pick.

Look beyond near-term capital gains

Though value may drop off in the near term, the digitalization of retail is still a megatrend that taps a paradigm shift in consumer habits. Investors should identify both new names with decent market ratios as well as big players facing near-term corrections.

There's a tech stock for every investing strategy, though. For instance, some tech companies trade on the TSX with relatively low betas. TFSA tech investors looking past near-term volatility have lower-risk plays in the so-called Old Reliable tech stocks. Some even pay dividends. Consider such names as **Open Text**. Selling at three times book, Open Text is still better value than many tech stocks.

Open Text belongs in the tried-and-tested column when it comes to popular TSX tech stocks. It's not what you'd call a growth stock, though. Average revenue growth in the last five years has been in the 11% range. Its share price is flat for the year, straying into the red by a couple of points. However, this unique and flexible data aggregation name pays a dividend yield of 1.8%.

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