3 Reasons it's Time to Book Profits on All Your Tech Top Stocks

Description

Technology investors have had an incredible year. Top stocks in e-commerce, cybersecurity, software-as-a-service, and healthtech have created hundreds of billions of dollars in additional shareholder value this year. In fact, the nation's most valuable corporation is now a tech stock too — **Shopify** (TSX:SHOP)(NYSE:SHOP).

Unlike previous rallies, this surge in tech top stocks has been driven by fundamentals. People were shopping online and buying digital products like never before this year. That meant higher growth and better profitability for many technology companies. However, there are reasons to be worried about the market now.

Here are my top three reasons why you should consider trimming your exposure to the tech sector and taking some profits off the table.

Lower growth

Tech companies experienced a wave of organic adoption this year, as nearly everyone was confined to their homes for months. More people streamed movies, bought groceries, and sent payments online than ever before.

In Canada, online retail as a proportion of total retail jumped from just 4% in 2019 to 11.4% in April, 2020 — nearly tripling in less than a year. That's what drove Shopify's valuation and top-line growth to an all-time high.

However, this growth rate is temporary. Tech companies cannot hope to match the same pace in 2021 and beyond. Incremental growth will be relatively slower, since the pandemic is being resolved, and companies have pulled forward years of traction this year.

Top stock valuations

Despite the reality of lower future growth, investors are pricing stocks based on *current growth rates*. Shopify stock is trading at a price-to-sales (P/S) ratio of 49.8. That valuation is justified if Shopify can keep doubling sales every year like it did in 2020. But if the growth rate slows down to the same rate as in 2019 (47% growth), the valuation is unjustified.

Similarly, other tech stocks like **Lightspeed POS** and **Facedrive** are trading at unreasonable P/S ratios of 31.3 and 1484 respectively. These ratios represent lofty expectations that are going to be difficult, if not impossible, to meet.

Better opportunities

As a millennial investor heavily exposed to the tech sector, it hurts me to say that there could be better opportunities elsewhere. Traditional brick-and-mortar stocks are vastly undervalued, while investors haven't fully recognized the potential for a strong economic recovery in 2021.

This may be the perfect time to trim some of your tech positions and allocate that cash to real estate, energy, airlines, or even the restaurant industry. Buying top stocks when they're undervalued is the essence of great long-term investing.

Bottom line

Every successful investor needs to be a little contrarian. Betting on unfavoured and overlooked industries is often the best way to generate value. At the moment, tech stocks are riding high. Most of the tech sector is trading at or near record valuations, which is why it's best to rotate into non-tech sectors for better value.

I'd keep my eye on real estate, tourism, and energy stocks going into 2021.

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2. Tech Stocks

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:LSPD (Lightspeed Commerce)
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