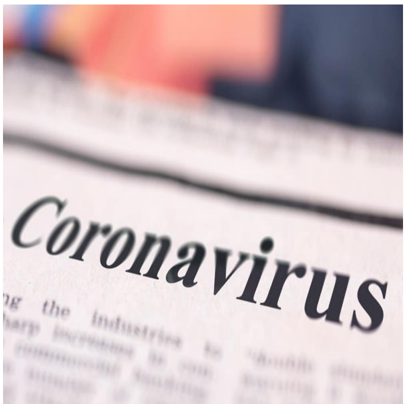

Here's Why You Need to Go Long on Pandemic Stocks

Description

September 2021. That's the rough deadline that Justin Trudeau expects to have half the country vaccinated against COVID-19 by. Is that longer than you expected? And fewer people than you'd hoped? You're not alone. Analysts are tempering their outlooks. Investors are revising their portfolios. And pundits are looking again at pandemic growth stocks.

It's been a roller coaster of a year for names like **Shopify** (TSX:SHOP)(NYSE:SHOP). But so, too, have beaten-up names such as **Manulife Financial** seen big changes. These bull theses are mirror images of each other: work-from-home versus recovery; growth versus value. The former thesis taps into a rapidly repositioning economy. The latter thesis tries to predict a return to normalcy. If balanced the right way, both strategies could pay out.

Going long on predictable stock trends

However, for the time being at least, investors need to get used to that insidious phrase: the "new normal." The pandemic is clearly not over yet. That's why going long on pandemic stocks — the names that have grown in the last 12 months — could be a winning strategy.

Let's look at some of the best performers in 2020. Not just in terms of share price appreciation, but also their longer-term stories and outlook. Ideally, we should be identifying stocks that have been around for long enough to be in some way predictable. Shopify has built an impressive economic moat. As the pandemic drags on, that's one reason why it could be a stock to go long on.

We touched on Shopify there, and this stock that gained +182% in 12 months is a good place to start. Shopify is well established at this point, with over a million vendors on its books. Partnering with merchants is a canny way to solidify a revenue base. Look at regulated energy suppliers, for instance. Any system that packs reassurance from contracted customers is going to add up to a buy in this space.

There's the e-commerce angle, too, of course. Anything to do with digitalized workforces is going to have legs in the coming years. This is a trend that existed before the pandemic. Expect an initial postvaccine dip (we've already seen vaccine rips cause tech stock dips). But after a correction, or series of smaller corrections, digitalizing names will almost certainly continue to exhibit upside.

Be a careful contrarian

Should investors wait to buy? Tech stocks are something of a conundrum. The market has been looking for guidance from pharma companies. This is a unique situation, presenting shareholders with unforeseen challenges. One of the biggest problems is that positive vaccine news weakens the lockdown growth thesis that's been buoying tech stocks. That's why a build-and-trim strategy might be the best way forward.

Investors can use earnings reports and share prices to gauge the performance of their basket of tech stocks. Weaker names can be sold off on strength. This raises liquidity which can be used to tweak portfolios, buying stronger names while they are selling off. By taking this careful contrarian approach, portfolio managers can massage their best equities, optimizing their stakes in key companies over time.

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