December IPOs: Is it Too Late to Buy Growth Stocks?

Description

Brand-new food delivery stock **DoorDash** (NYSE:DASH) has seen predictably wild volatility since its Wednesday IPO. Early performance backs up initial doubts that suggested this IPO was too expensive and came too late for the pandemic market. The stock initially rocketed 86% straight out of the stalls. That's all well and good. But Thursday saw DoorDash drop 8.8% to below its opening price tag of US$182.

Too late for pandemic-focused IPOs?

Yes, it's early days. But DoorDash is a stock that really should have continued to climb on its second day of trading. Friday saw the varnish continuing to rub off. The stock ended up negative by 7.6%. Had this IPO come earlier on in the year, there is little doubt that a DoorDash IPO would have continued to climb. But this is a market that has become increasingly preoccupied with overvaluation, however.

And it should be. After all, a series of tech stock corrections in the fall have suggested that a recovery will not be kind to pandemic growth stocks. Earlier in the week, I'd argued that **Docebo** represented a better class of tech stock. Docebo is pertinent here, since it is gearing up to trade on the NASDAQ. But other names are worth picking over this month. Notable among the newcomers include rental outfit **Airbnb**.

Anybody who has taken an impromptu trip across country or gone abroad on a budget will be aware of Airbnb. The holiday rental app is also a source of passive income for property owners. But as a stock, it's a whole new entity. Unfortunately, timing seems to be an issue here as well. No doubt, investors bullish on reopening may fancy Airbnb's chances in the new year. But again, the valuation, plus new lockdowns, don't instill much confidence.

Looking past the near-term momentum

Would-be shareholders in these new names may want to take a look at pre-existing players in relevant areas. Look at **American Hotel REIT**, for example, if Airbnb tempts. For potential DoorDash stakeholders, consider the performance of **Restaurant Brands International**. While tech stocks have generated their own momentum this year, studying these sectors could be instructive.

The positives of buying into established names in these areas are also compelling. For one thing, an established stock brings years of trading data with it, and with it a certain amount of predictability. To stick with the examples of QSR and the hotel REIT, these are also dividend-paying stocks. The Tim Hortons owner shells out a dividend yield of 3.5%. The real estate trust is projected to pay a similar yield.

Of course, dividends aren't what investors get into hot new tech stocks for. Long-term wealth creation via passive income isn't the thesis here. Instead, traders are looking for the tastiest near-term upside. The issue is that it's a little late in the day for new names to try catching the updraft from the pandemic. The health crisis is turning a corner, with vaccines gaining approval and supply networks cranking up to deliver shots. In short, the pandemic growth game might be up.

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